

LAND ECONOMICS

a quarterly journal of

PLANNING, HOUSING & PUBLIC UTILITIES

CONTENTS

AUGUST 1953

Economic Possibilities of the Public Domain.....	MARION CLAWSON.....	187
A Great Myth: The Russian Granary.....	EMIL TRUOG and DIMITRI T. PRONIN.....	200
II—The High Cost of Economic Development.....	MARTIN BRONFENBRENNER.....	209
The Revested Oregon and California Railroad Grant Lands: A Problem in Land Management.....	WESLEY C. BALLAINE.....	219
Land Reform and Politics in Czechoslovakia: 1945-1952.....	KAREL HULICKA.....	233
Accelerated Amortization and Regulatory Policy.....	EDWARD NEUNER, JR.....	248
Mechanics of the Urban Economic Base: The Problem of Terminology.....	RICHARD B. ANDREWS.....	263
Soviet Policy on Urban Housing and Housing Rent.....	MAURICE FRANK PARKINS.....	269
Aftermath of Shelley Versus Kraemer on Residential Restriction by Race.....	B. T. MCGRAW and GEORGE B. NESBITT.....	280

PUBLISHED QUARTERLY BY THE UNIVERSITY OF WISCONSIN
DURING THE MONTHS OF FEBRUARY, MAY, AUGUST, AND NOVEMBER

Publication Office: 121 South Pinckney Street, Madison, Wisconsin
Editorial Office: Sterling Hall, University of Wisconsin, Madison 6, Wisconsin
The contents of the *Journal* are indexed in the *Industrial Arts Index*.

Information on *Preparation and Submission of Manuscripts* available on application to Editorial Office.

Entered as second-class matter, January 3, 1938, at the post-office at Madison, Wis., under the Act of March 3, 1879. Acceptance for mailing at special rate of postage provided for in section 1103, Act of October 3, 1917, authorized October 12, 1922. Printed in the United

States of America.

Subscription Rates: \$6 a year; \$2.00 a copy. Remittances may be made by personal checks, drafts, post-office or express money orders payable to *Land Economics*.

Agents of the *Journal* in Great

Britain, B. F. Stevens & Brown Ltd., 28-30 Little Russell St. British Museum, London, W. C. 1.

Copyright: Contents of this issue are covered by copyright, 1953, by the University of Wisconsin. Copyright, 1953, in Great Britain.

LAND ECONOMICS

a quarterly journal of

PLANNING, HOUSING & PUBLIC UTILITIES

Published by The University of Wisconsin

EDITORIAL BOARD

Land Economics

RAYMOND J. PENN
University of Wisconsin
PHILIP M. RAUP
University of Minnesota
V. WEBSTER JOHNSON
Mutual Security Agency

Public Utilities

MARTIN G. GLAESER
University of Wisconsin
WILLIAM V. WILMOT, JR.
University of Wisconsin
E. W. MOREHOUSE
General Public Utilities Corporation
New York City

Urban Land

ERWIN A. GAUMNITZ
University of Wisconsin
RICHARD U. RATCLIFF
University of Wisconsin

Regional Planning

JOHN M. GAUS
Harvard University
HOMER HOYT
Larchmont, New York
COLEMAN WOODBURY
Harvard University

Managing Editor
MARY E. AMEND

EDITORIAL COUNCIL

GRAHAM ALDRIDGE
Aldis & Company,
Chicago, Illinois
CHARLES S. ASCHER
Professor of Political Science
Brooklyn College
MORTON BODFISH
U. S. Savings & Loan League,
Chicago, Illinois
JAMES C. BONBRIGHT
Professor of Finance,
Columbia University
MARION CLAWSON
Economic Advisory Staff
Jerusalem Israel
J. COKE
Economist,
Department of Agriculture,
Ottawa, Canada
ERNEST M. FISHER
Professor, Urban Land Economics
Columbia University
New York City
JOSEPH LARONCE
Real Estate Consultant,
Cleveland,
Ohio
ERVEN J. LONG
Professor, Agricultural Economics
The University of Tennessee
Knoxville
H. J. O'LEARY
Public Service Commission,
Madison, Wisconsin

PAUL OFFERMANN
Director of Planning
City and County of
San Francisco
D. F. PEGRUM
Professor of Economics,
University of California, Los Angeles
PAUL P. PULLEN
Advertising Officer, Chicago Title &
Trust Company
PAUL JEROME RAYER
Administrator,
Bonneville Power Administration
EMERSON P. SCHMIDT
Economic Research Director,
Chamber of Commerce of the U. S.
HENRY SCHMITZ
President,
University of Washington
LIONEL W. THATCHER
Professor of Transportation
University of Wisconsin
WALTER H. VORSHUL
Mineral Economist, Illinois State
Geological Survey, Urbana
HERMAN O. WALTHER
American Institute of Real Estate Appraisers, Chicago, Illinois
GORDON WHITNALL
Consultant, Planning and Government,
Los Angeles, California

LAND ECONOMICS

a quarterly journal of
PLANNING, HOUSING & PUBLIC UTILITIES

AUGUST
1953



VOLUME XXIX
NUMBER 3

Economic Possibilities of the Public Domain

By MARION CLAWSON*

THE remaining public domain in the United States contains valuable and important natural resources which are now actively in demand, which are likely to be in greater demand in the decade or so ahead, and which can be economically developed to a higher state of productivity than at present. The purpose of this article is to describe these resources, their present use and recent trends in their use, and to consider some of the possibilities of expanded use and of increased productivity.

In the analysis which follows, it has been assumed that the area of public domain will remain essentially as it is at present. That is, it is assumed that no program of wholesale disposal to states or individuals will be adopted. This assumption is not incompatible with a program of *selective* land disposal, wherein tracts of special value for private ownership or of strictly limited value for public programs are transferred from public to private ownership. The latter might ultimately include 3 to 5 million acres out of a present total of about 184 million acres. A program of wholesale land disposal might involve a major part, or

nearly all, of the remaining public domain and would, of course, render completely obsolete the analysis which follows.

Historical Background

As the United States grew politically to occupy the entire central portion of the North American continent, the territory so added was the property of the United States in a proprietary sense. In fact, the public domain antedates the Constitution. As part of the political compromises necessary to the formation of the Confederation and later of the Union, the states possessing claims to western land were forced to cede them to the new central government. Thus, the public domain in what was then the Ohio territory and is now included in the states east of the Mississippi River and north of the Ohio River came into being. The great Louisiana Purchase, the Florida Purchase from Spain, the treaty with Mexico following the war of 1848 which added the Pacific Southwest, and the treaty with England in 1846 which added the Pacific Northwest, were some of the major steps in the creation of the vast public domain. In total, roughly three-

* Economic Advisory Staff, Jerusalem, Israel.

fourths of the present area of the United States has at one time or another belonged to the federal government.

The process of disposing of this land to individuals, states, and others began long before the process of acquisition was completed. Although there is much truth in the usual American history text about the conflict between a land disposal program for revenue which was favored by Hamilton and a land disposal program to aid settlement which was favored by Jefferson, the fact is that the land disposal program was very slow in the first years of the new nation. The states possessed some large areas of land and there had been so much land given to individuals as a reward for their military service that there was little demand for the federal land. However, this demand grew after 1800 and by 1820 was quite active. The process of acquisition brought more land into federal ownership than the processes of disposal took out until about 1850 when the area of public domain reached its peak at approximately 1200 million acres.

Since 1850, and more particularly between about 1865 and 1920, the processes of land disposal worked very rapidly. Large areas were at first sold and later other areas were homesteaded. Other large areas were given to railroad companies as an inducement to construct railroads and still other large acreages, particularly of swamp land, were given to states in the hope that certain improvements would be constructed. Other grants for other purposes were made to the states. All in all, a rapid and not too discriminating policy of land disposal characterized the latter half of the 19th century and extended into the first two decades of the 20th century.

Descriptions of the land disposal process often fail to include another type of "disposal." This is the withdrawal and

reservation of public land for other types of federal land managing uses. Beginning with Yellowstone National Park in 1872 and with the passage of the first Forest Reserve Act in 1891, relatively large acreages of what had once been public domain were set aside for national forests, national parks, wildlife refuges, and the like. Some military withdrawals which had been established earlier continued throughout but the largest withdrawals for military purposes have come in the last 15 years. These withdrawals and reservations continued the land in federal ownership but changed its status from that of public domain to that of reserved land. The Taylor Grazing Act of 1934 in effect withdrew all of the remaining public domain and put it under positive constructive management with a provision for selective disposal on lands suited for the purposes sought and not in demand for federal programs.

The processes of land disposal were selective in character. That is, the individual settler chose the tract of land which, given the transportation and other conditions of the time, was in his mind the most valuable and most desirable. Many settlers made poor choices even under the circumstances of the times; and in many instances wise choice at an earlier time would today not be a wise choice because of the changed conditions. While grants to railroads and states were in part fixed in location, there was some opportunity for selection even here. The withdrawal and reservation of land for other types of federal land administration was likewise a selective process. That is, areas were withdrawn for national parks because they possessed unusual scenic qualities and other lands were withdrawn for national forests because they had good stands of timber or were valuable grazing areas or had important watershed values. The criteria

for selection varied from time to time and from person to person or group to group making the selections. Moreover, the amount of knowledge available to those making the selections changed from time to time. However, within the limits of legal authority, knowledge, and economic conditions the selections were the more valuable lands available. The remaining public domain at each stage was the least valuable land, all these factors taken into account.

This selective process vitally affects the administration of the remaining public domain. In some of the drier and more arid areas there are relatively large and nearly unbroken blocks of public domain. For the most part, however, the remaining public domain is interspersed with privately-owned land, and is likely to lie in relatively small tracts. The public domain is likely to be the driest, rockiest, steepest, least accessible and generally least desirable tracts in each locality. This fact should be born in mind continually in considering the present and potential uses of the remaining public domain.

Present Uses and Recent Trends

On the acreage basis the most important present use of the remaining public domain is for grazing. Of the approximately 184 million acres falling under the classification of public domain (including some withdrawn or reserved areas), approximately 176 million acres are used for grazing and, of these, 161 million acres are within grazing districts. All of this land, with minor exceptions, has been used for grazing for several decades. With the passage of the Taylor Grazing Act the grazing use of this land was brought under definite control. The numbers of livestock, seasons of use, and other factors are carefully determined by the Bureau of Land Manage-

ment and stipulated to the private livestock owners who use the areas. There are approximately 20,000 livestock operators who use the public domain within grazing districts and approximately 12,000 more who have leased relatively small and scattered areas lying outside of grazing districts. During 1951 approximately 2.2 million head of cattle and 5.9 million head of sheep grazed on the public domain within grazing districts. These are 6% and 23% respectively of the total number of beef cattle and of sheep in the United States, and 27% and 53% respectively of the total number of beef cattle and of sheep in the 10 western states containing grazing districts. Although these livestock find only a part, and often only a small part, of their total feed from the public domain, nevertheless this feed is often critical to the total annual operation since it may be all or most of the feed available at a particular season.

The passage of the Taylor Grazing Act eliminated considerable previous grazing of the public domain, particularly that by the so-called tramp sheep operator. Application of certain standards of private land ownership as a condition for obtaining grazing on the public domain reduced grazing use even further. After this initial adjustment and partly as a result of livestock water and other range improvements, the numbers of livestock using the public domain have been relatively constant, with only a slight downward trend in recent years. Numbers of sheep have declined considerably due to other economic forces, but these have been in large part replaced by cattle.

On an acreage basis the next largest use of the remaining public domain is for mineral production or at least for leases for mineral production. At present, approximately 56 million acres of public domain are under lease for oil and gas

production and relatively small acreages for other minerals such as potash, phosphate, and coal. Practically all of the land so leased for minerals is also used for grazing. The acreage under oil and gas lease has expanded very rapidly in the last ten years from less than 3 million acres in 1944 to the present acreage. The increasing demand for petroleum, the difficulties in finding new supplies, and other factors have led to increased interest by oil producers in the western states where public land is a large part of the total. Unfortunately, the increase in actual exploration for oil on the public domain has not kept pace with the increase in acreages leased. There has grown up a large-scale business in speculating on oil and gas leases on the public domain. Speculators may seek to interest actual developers in exploration for oil or they may be interested chiefly in getting other and less informed speculators to take over their holdings at a profit.

Although the major federal forestry programs are found on the national forests and on Indian reservations, there is still a substantial volume of commercial timber on the remaining public domain and particularly upon the O & C lands in western Oregon. The latter were once included in a grant to the Oregon and California railroad (hence the O & C)¹ but later were repossessed by the United States. Approximately 6½ million acres of public domain and O & C in the United States have commercial stands of timber. In addition, in Alaska there are vast acreages of forested land, much of which has local importance. The volume of timber on the O & C and public domain lands is roughly one-seventh of that found on the national forests. The volume of timber

sold from the O & C and public domain lands has been increasing in recent years. Much more striking has been the great increase in prices received for stumpage. Prior to the war O & C stumpage sold for approximately \$2 per thousand board feet. In the last two or three years the same type of timber, plus lower grade logs and in general somewhat less accessible timber, has sold for an average of between \$25 and \$30 per thousand board feet.

The remaining public domain has uses and importance in other ways. Much of it is sought for residential or site purposes. In recent years the small tract program of the Bureau of Land Management has been a most popular one. Several hundred applications have been received annually for agricultural use of the public domain. Although many people have assumed that previous homesteading has taken all the potential agricultural land into private ownership, this is not necessarily true. Some desert areas have limited ground water supplies which can be pumped economically with present day sources of power, and which may be farmed successfully.

Much of the public domain has important watershed values. In the West the bulk of the total runoff comes from relatively high mountain areas. For many drainages as much as 80% of the total runoff may come from 20% or less of the the total drainage area. These higher mountain areas are often in national forests. By and large they do not produce large volumes of sediment into the streams. In sharp contrast the foothill and lower areas produce relatively little runoff but produce a great deal of sediment. For many streams 80% of the sediment comes from that part of the total drainage area producing 20% or less of the total runoff. These areas often produced considerable sediment long

¹ See Wesley C. Ballaine, "The Revested Oregon and California Railroad Grant Lands: A Problem in Land Management," *this journal*.

before white man explored the West. The Missouri was known as the "Big Muddy" and the earliest accounts of the Colorado emphasize its silt-laden character. However, grazing over-use, improper construction of roads, improper construction of irrigation works, and other measures have greatly accelerated the normal erosion of these areas.

These lower silt-producing areas are generally in private ownership or in public domain status. Their importance as watershed areas is obvious.

The remaining public domain today is the resource base for roughly \$10 billion of the national income, or roughly 3% of the national total. Its importance is relatively less than its area, which is about 9% of the nation, but is considerable nevertheless.

Natural Resources in an Expanding Economy

The importance of natural resources to the national economy has received increased attention in recent years. The report of the Paley Commission was specifically directed to the matter of natural resources for the next 20 years but the President's Commission on Water Policy and various other public and semi-public groups have given considerable attention to this matter also. It is now the general consensus that our total economy will expand more or less continuously and more or less regularly and at a fairly rapid rate. Unless some wholly unforeseen changes occur in birth and death rates the population will increase considerably (25%, more or less) in the next two decades. Per capita income has also been increasing and seems likely to continue to do so. The total output of goods and services will, therefore, probably increase greatly in the years ahead. Severe and prolonged depression might result in a major decrease in total economic output but even this will probably represent a major

interruption to the long-term trend rather than its reversal.

Increased economic output will place an increasingly heavier burden upon natural resources. Over the past several decades there has been a marked trend toward increased efficiency in the use of natural resources. For instance, the amount of energy or power required to produce a given volume of output has declined rather steadily and the amount of fuel required to produce a given amount of energy has also declined considerably. The increase in total resources required for the anticipated increased total economic output will therefore be relatively less than the increase in output but is likely to be considerable nevertheless. Through new technology the pressure on different types of resources tends to become equalized. That is, technology provides ways in which abundant and relatively cheap resources can be substituted for scarcer and more expensive resources, at least for some uses, so that the pressure can be more or less equalized. This is particularly true in the long run but is of some importance even in the short run.

This anticipated increased demand for all natural resources will be felt with particular force on what had previously been marginal resources. When total demand increases by 25, 50, or 100% the relative increase on the previously marginal resources may readily be ten times as great. For instance, the output of previously marginal mines may come to be needed and to be economically feasible, so that the output of these mines rises one hundred fold even though total mineral production increases only 25%. For reasons outlined earlier in this article, the public domain remaining at any particular period was roughly marginal, economically speaking, given the institutional factors for the particular

time. This was certainly true when the Taylor Grazing Act passed in 1934. Since that date the operations of that Act have tended to keep in public ownership for multiple-purpose use some land which in its absence might well have gone into private ownership for single-purpose use. However, the resources of the public domain which have in considerable part been marginal in the past are rapidly becoming well above the economic margin in usefulness. For instance, white fir and lodgepole pine are two species of trees that were entirely unused for lumber 10 years ago but which can now be sold for fairly good prices. Substantial volumes of both are found on the public domain.

Physical and Economic Possibilities of the Public Domain

As pointed out previously, grazing uses more of the public domain than any other land use. The Bureau of Land Management has estimated that it is possible to increase the grazing productive capacity of the remaining public domain by 30%. This estimate assumes that these lands will be grazed on a conservative or sustained yield basis both before and after improvement. The increase in capacity could come about through reseeding, other vegetative improvement such as brush removal, water-spreading, development of livestock water and related processes. On some 11 million acres of land it is practical to reseed. These are in general sagebrush-covered lands with reasonably good soils and slope, and with an annual precipitation of 12 inches or more. Under these conditions, new stands of grass can be established with no greater risk of failure than is found in growing wheat in dry farming areas. Where the native grass cover has largely disappeared through overgrazing it may require some 10 to 30

acres of such land to provide feed for one animal for one month. Through reseeding it is possible to increase forage production until 2 or 3 acres will provide the same amount of feed, and on the whole better quality feed.

In other areas removal of most or all of the sagebrush or other relatively unpalatable shrubs will give the diminished but still considerable stands of native grasses a chance to reseed naturally and to thicken up. There are still other areas, principally of lower rainfall, where reseeding is possible but much more of a gamble. In such areas reseeding is possible during wetter-than-average years. Once the stand is established it will persist through normal and dry years if properly managed.

There are roughly 2½ million acres of public domain in the West on which it is practical to spread and retain flood waters. This operation is highly desirable as a means of reducing erosion and thus the siltation of stream channels and reservoirs. In addition, it produces forage in relatively large quantities on the areas to which it is applied. This method of increasing grazing capacity is unfortunately limited to relatively few areas of favorable topography.

These specific measures to increase range-carrying capacity will not be effective unless high quality management is extended to the same range lands. It will be necessary to avoid their over-use or their improper seasonal use. With increased grazing capacity additional amounts and sources of livestock water will be required. More fencing will be economical. For the most part, these increases in grazing capacity will provide feed during the spring season. This is particularly true of the reseeded areas. All types of improvements will have usefulness at other seasons but the greatest relative increase will be for spring graz-

ing. This will make possible a greater use of the reseeded areas and hence a reduction in grazing use on other lands, both publicly- and privately-owned, during this particular season. This reduction in spring use on other lands should in many instances result in a substantial ultimate increase in their grazing capacity also. For instance, range reseeding in the foothill areas may make it possible to stay off higher mountain areas for an additional two to four weeks. Over a period of years this delay in the opening of the grazing season should materially increase the productive capacity of these higher lands and thus be an indirect result of the reseeding of the lower areas.

To achieve these increases in grazing capacity on the remaining public domain will require an ultimate investment of somewhere between \$400 and \$500 million, at present price levels. Some of this investment, perhaps a third, can and will be made by private operators but the remainder will have to be made by the federal government.

The annual harvest of timber from the O & C and public domain forests can be materially increased. This will not only result in a materially higher income to the federal government and a materially higher level of economic activity in the localities based on these resources but it will also be good forestry. The O & C and public domain forests are for the most part mature or over-mature virgin timber. In such stands there is generally no net growth. Such growth as does take place is approximately balanced by losses from fire, insects, disease, decay, and other causes. In order for new net growth to occur it is necessary to harvest the present mature timber. Such harvesting should be carried on under methods which will insure maximum future growth from the same areas and also should be spread out over a suffi-

ciently long period of time that the same areas can be harvested again when the first cycle of cutting is complete. Forests on the O & C lands are predominantly Douglas firs. The most practical method of harvesting is to clear-cut certain tracts and allow them to reseed naturally from adjoining uncut tracts which are cut later. Much of the public domain timber is ponderosa pine, lodge pole pine, white fir, and similar species where selective cutting of individual trees is practical. On these areas it is possible to cut the same tract at intervals of about 20 years as contrasted with intervals of 90 to 125 years for the Douglas fir, but the volume cut per acre of pine is much less than the volume of Douglas fir cut per acre.

The cut of Douglas fir and associated species from the O & C lands in recent years has been mostly between 400 and 500 million board feet. With the development of access roads to reach presently inaccessible areas, with the utilization of low grade or previously uneconomical logs, and with some other recent changes it is possible to step up the cut on these lands to perhaps 800 million feet.² The cut on the public domain lands in recent years has been considerably less than 100 million feet and this could easily be stepped up to 200 million feet or more. In addition, there are roughly 35 million acres of public domain classed as woodland because of supporting stands of pinion pine and juniper. While the only present economic use of these species is for fence posts and mine props, it is entirely possible that at some future date they may be used as a source of pulp. If so, the production of this large area, while relatively low per acre, would still be considerable.

² These figures all exclude 462,000 acres of "controverted" O & C lands, which the Forest Service has claimed as part of the national forests.

There is great need for an expanded program of soil and moisture conservation on the remaining public domain. Due to factors previously outlined, much of the public domain was in very serious condition in 1934. Substantial improvement has taken place over large areas since that date, due to the control over grazing. However, in many situations good grazing management alone is insufficient. Structures and mechanical works, as well as vegetative measures, are needed to prevent further loss of soil. In large areas severe gullying of the alluvial valleys has occurred. The most practical means of stopping these gullies is by retention and detention dams to slow down or stop runoff, which is then dispersed through water spreading or other devices. In some instances contour plowing or furrowing of parts of watershed may be practical.

In general, a watershed management program should start at the upper reaches of the watershed and move gradually downstream, bringing under control the occasional but frequently heavy flash runoffs which otherwise would occur. If the destructive runoff is checked or eliminated, the gullies will gradually heal by natural processes, and the amount of silt movement will be greatly reduced. These soil and moisture conservation programs have large on-site benefits which frequently exceed the costs considerably and in other instances are equal to or nearly equal to the cost. In addition, substantial off-site benefits may be realized in some instances through prevention of siltation of channels and reservoirs. In many instances a foot of sediment can be stored on the upper watershed in small earth-filled dams more cheaply than it can be stored in large downstream reservoirs. Although the cost per cubic yard of dam material is often higher for small than

for large dams, the cost of excavation and other foundation operations is proportionately much less for small than for large dams. In addition to the cost factor, there is also the matter of permanence of the two types of control. The capacity of upstream small reservoirs can be increased almost without limit if they silt up, by simple bulldozer operations, to raise the height of the dams. On the other hand, in many instances there are but one or a few practical downstream reservoir sites. For these reasons a substantially expanded program of soil and moisture conservation on the watershed areas seems essential.

Not only is mineral production from the public domain almost entirely in the hands of private operators, as is true of grazing and forestry operations, but the amount and timing of development is almost entirely a matter of decision by the private individuals and corporations concerned. Their willingness to undertake exploration for minerals and to develop any minerals found will be conditioned largely by their expectations of profit and by the terms and conditions under which the land is made available to them. There are several ways in which the present mining law and mineral leasing law can be modified or in which the administration of these laws can be changed so as to encourage more actual development of minerals. The acreage under lease for oil and gas development has increased from less than four million acres in 1944 to over 56 million acres in 1953. However, this enormous increase in acreage under lease has not been accompanied by a proportionate increase in actual exploration, the number of exploratory wells drilled annually only about doubling in this period.

The mineral leasing act at present operates too much in the direction of

encouraging speculation and not enough in the direction of encouraging exploration. A number of improvements could be made. First of all, rentals for non-competitive or wildcat leases should be raised to a level comparable with those on privately-owned and state-owned land. Higher rentals would discourage leasing for purely speculative purposes. The Secretary of the Interior has the authority to fix rentals as long as they are 25 cents an acre or more, except that no rental can be charged for the second and third years of the five-year-lease period. The present rental is the minimum except that 50 cents per acre is charged for the first year; it was established at this level in 1940. Comparable rentals on other land are probably five times as high.

The present mineral leasing act does not include any obligation for drilling or other exploration but it does impose a limitation on the acreage that any one individual or company may hold within one state. The latter is frequently evaded in practice. If a drilling obligation were imposed so that land could not be leased for purely speculative purposes or as a reserve for future exploration, then it would be both possible and desirable to eliminate the acreage limitation. In lieu of such changes in the law, or perhaps in any case, it might be preferable to establish a rather high scale of rentals with the provision that most of the rental would be refunded whenever actual exploration took place. Under the present mineral leasing law there is an excessive amount of assignments from the relatively small lessees to the actual developers or to other speculators. This business of assignments contributes little to the actual development of the areas and it frequently interposes much extra work both for the developer and for the government.

The mining law can probably be amended to encourage the actual miner as well as to eliminate some of the abuses of the law under which others obtain land for other purposes.

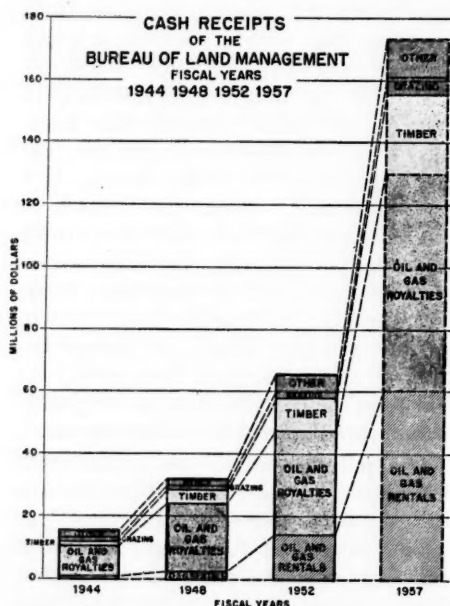
It is impossible to forecast the potential mineral production on the present public domain but it is wholly in the realm of possibility that within 20 years it could increase somewhere between 5 and 20 fold. For the longer period—from 15 years in the future onward—the possibility of an extensive development of the coal deposits on the public domain is a very real one. With the growth in population of the West, with the growth in the use of electricity per capita, and with other demands for petroleum products it is entirely probable that coal will become a major source of energy beginning 15 or 20 years from now. At that time the coal deposits on the public domain are likely to be in high demand.

The public domain has considerable possibilities for site and miscellaneous uses. In a number of areas in the West, urban, suburban, rural, and industrial settlement is taking place on or adjacent to the public lands. While the total acreage needed for these purposes is not large, this is a very important use of the areas involved.

Some Fiscal Relationships

Over the years the public domain has been a fairly important source of revenue. Some time in the fall of 1952 revenues from the public domain, for the entire period of United States history, passed the \$1 billion mark. Prior to 1920 most of the revenue was from sale of land. Since 1920 a large part of it has been receipts under the mineral leasing act, which is for the most part a sale of a non-renewable resource. However, an increasingly large part of the total revenues has come from the sale of renewable re-

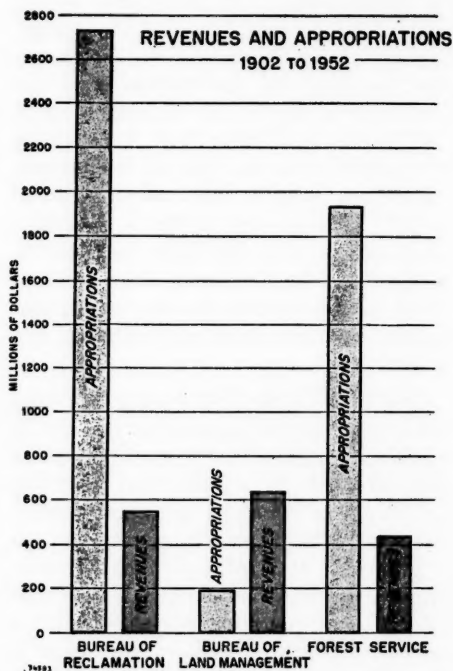
sources, particularly timber and forage. Total revenues from the public lands have doubled each five years since the low point in 1933. Total revenues and the amount from different sources for three recent years are shown in Figure 1. Also shown in this figure is a projected



potential revenue for 1957, to which reference will be made later.

This relatively large revenue from the public domain is the more striking in view of the very limited expenditures made for the administration of these lands. During the 50 years since 1902 the Bureau of Land Management and its predecessor agencies have collected more total revenue than either the Forest Service or the Bureau of Reclamation and have done so with an appropriation of some 5 to 10% as large, as can be seen in Figure 2. In recent years the national forests have produced revenue almost equal to expenditures on them and in one or two recent years have produced somewhat more revenue than expendi-

tures. In no year since 1902 has the revenue from the public domain been less than double the appropriations and in recent years it has run about five times as large. The revenue-appropriation relationship for the public domain



has not been a satisfactory one because it has been achieved only at the expense of inadequate appropriations, inadequate administration, and insufficient capital improvements of these lands. However, large additional revenues could be obtained from these lands and the present revenue-appropriation ratio maintained or possibly widened by a reasonably high level of administration and appropriations.

It has been estimated that revenues from the public domain could be approximately trebled between 1952 and 1957, as was shown in Figure 1. This represents a possibility rather than a forecast.

To achieve it, three main lines of action are needed. First, certain new legislation is needed to permit making charges for many services now rendered free and which benefit individuals primarily rather than the general public. Potential revenues from this source are not particularly large, somewhere in the magnitude of \$1 to \$2 million annually. However, the imposition of a charge would very likely reduce the demand by the public for these relatively unproductive services and thus enable some of the present appropriations to be put to more constructive uses.

The second main type of action for higher revenues is the administrative fixing of fees or rentals at essentially commercial rates, where the Secretary of the Interior has the authority to do so. The most important item in this regard is the rental on non-competitive or wildcat oil and gas leases. These rentals produced \$14 million income for fiscal 1952. Rentals could easily be from 3 to 5 times their present level. While the acreage leased might be somewhat less with such higher rentals, they would not discourage leasing where there is any real expectation of actual exploration for minerals. Another item of increased fees and rentals is the grazing fees. These also could probably be increased somewhere in the neighborhood of 3 or 4 times their present levels and still be within reasonable prices compared to other land of equal productivity and value. Rentals on privately-owned grazing land and fees on other federal land are even higher than this, but such lands are much more productive, on the average, than the public domain grazing land. If grazing fees were to be increased materially, some adjustment would have to be made between the less productive and more productive grazing areas. Some adjustment would probably be necessary

to take account of year-to-year variations in livestock prices. Total receipts from grazing fees in recent years have been running somewhere around \$2 million annually. It is thus apparent that the potentialities for increased revenues are much greater from oil and gas rentals than from grazing fees.

The third major requirement for increased revenues is increased appropriations. It is often impossible to make money unless you are willing to spend some. The most direct relationship between appropriations and revenues exists for the issuance of oil and gas leases. The rentals on such leases are not earned until the lease issues. Lack of clerical and other staff to issue leases may cost the government heavily in terms of lost income. Unless timber can be cruised and put up for sale, no revenues can be obtained from it. Unless land can be surveyed and the boundaries clearly marked, within a few years it will be impossible to obtain revenue from any program because the exact location of the public lands will be unknown. Other activities in the administration of the public domain may have a less immediate but nevertheless equally direct relationship to revenue. If the revenues are to be increased three-fold, then appropriations must be raised proportionately.

These relationships can be summarized in the following simple table:

REVENUE POTENTIALITIES FROM THE PUBLIC DOMAIN IN 1957
(millions of dollars)

	On Basis of	
	(1) 1952 appropriations	(2) Appropria- tions trebled ¹
(a) with present fee and rental structure.....	84	135
(b) with increased fees and rentals..	99	174

¹ Assuming \$30.7 million compared with \$10.9 million in 1952.

Revenues in 1952 were \$64.5 million.

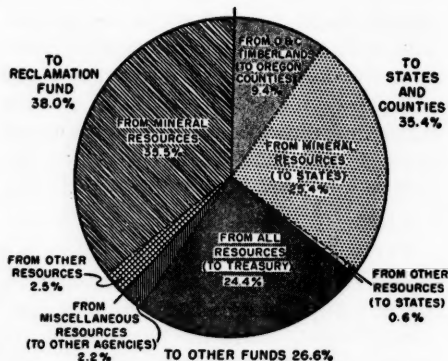
Another aspect of the financial side of public domain administration is the use of the revenues obtained. The use of

receipts is in accord with provisions of law. Part of most types of receipts are paid to either the states or counties in which the lands lie. However, this relationship is a most erratic one. For instance, 5% of the receipts from timber sold from public domain goes to the states and the remaining 95% into the reclamation fund. On the other hand, of the timber sold from O & C lands, 75% of the receipts goes to the counties and the remaining 25% into miscellaneous receipts in the Treasury. Of the Mineral Leasing Act receipts 37½% is paid to the states and 52½% goes into the reclamation fund. For grazing receipts there are two systems: (1) within grazing districts, a range improvement fee is charged, all of which is spent back on the land—one of the few instances of using receipts to increase productivity of the public domain; of the grazing fee, 12½% is paid to the states and 87½% deposited in Treasury miscellaneous receipts; (2) outside of grazing districts, 25% of the rental is for range improvements, 50% is paid to states and 25% goes to miscellaneous Treasury receipts. The distribution of receipts for fiscal 1952 is shown in Figure 3.

In fiscal 1952 nearly \$23 million was paid to states and counties; by 1957, if the income potentialities are reached, this will rise to over \$61 million. In 1952, \$24.5 million was paid into the reclamation fund and, by 1957, if the income potentialities are reached, this would approximate \$65 million. The rationality of large contributions to reclamation, with only very small amounts being reinvested on the public domain out of income from it, seems dubious. The whole system of payments to states and counties should be re-examined. It may well be that a simple system of tax equivalents would cost the federal government no more, would better meet the

needs of local government, and would better facilitate adequate appropriations for administration of the public domain,

BUREAU OF LAND MANAGEMENT
DISPOSITION OF RECEIPTS 1952



TOTAL CASH RECEIPTS \$64,518,396.02

than do the present revenue-sharing schemes. Revenue-sharing is in effect appropriation-sharing. If \$1 million is appropriated to build a timber access road in the O & C area and thereby the value of the timber sold increased \$1 million or more but the O & C counties gets 75% of the receipts, the net result is precisely the same as if the Congress had appropriated \$750,000 directly to the counties. The same relationship exists, but not in as extreme a fashion, for appropriations for administration and management. The Congressional appropriation committees have objected to this arrangement. Bills for a permanent change in the sharing of O & C receipts have been introduced, and for the past year the cost of roads has been deducted from the counties' share of the receipts, by special provision in the appropriation acts.

There has been much demagogic talk about the public domain not "being on the tax rolls" and hence not contributing to the cost of local government. Reve-

nue-sharing in the past may well have brought, or in the future may well bring states and counties in total more funds than tax equivalent would bring, though some states and counties have not fared as well as others. In addition, western states get substantial federal funds for highway construction and other purposes, simply because they include large areas of federal land. Since public domain has been fully used to the limit of its physical and economic capacity in the past, it has contributed to local income and hence

indirectly to local tax rolls. Much more important than direct payments to local government is the desirability of having the public domain built up and administered as nearly as possible at its full physical and economic potential. To the extent that a smaller total cut to the states and counties, or a different method of calculating their share, would facilitate achievement of this goal, it would seem to be in the interests of local governmental units, as well as of the nation, to accept such changes.

**Among articles to appear in November
issue of LAND ECONOMICS:**

- A DISCUSSION OF MIDDLE-INCOME HOUSING: THE COOPERATIVE SNARE? .
.....*Charles M. Haar and Roger Willcox*
- URBAN REDEVELOPMENT AS AN OUTLET FOR CAPITAL INVESTMENT....
.....*Leo Grebler*
- SOME PROBLEMS OF BRITISH NEW TOWNS.....*Lloyd Rodwin*
- LAND REFORM AND INDUSTRIAL DEVELOPMENT IN MEIJI JAPAN.....
.....*Irving L. Kramer*
- THE ALLEGED MULTIPLE-EFFECT OF INCOME TAXATION ON PUBLIC
UTILITY RATES.....*Robert Solo*

A Great Myth: The Russian Granary†

By EMIL TRUOG* and DIMITRI T. PRONIN**

PEOPLE in all walks of life in this and other countries, including Western Europe, think of Russia as being a great granary of surplus food grains. To say that nothing could be farther from the truth than this will, of course, be questioned by many. Nevertheless, a careful and extended study of the facts leads directly to such a conclusion: Russia has never been, is not now, and probably never can become a really great and dependable producer of food grains, such as the United States whose corn production alone equals in food value all of the grains produced in the land of the Soviets.

History records that severe famines have plagued important food-producing areas of Russia. During World War II, Russia appealed for and received much food from the United States. Even now the food supplies in Russia would probably be decidedly inadequate for a good standard of living were it not for the fact that a large portion of her army and police force is living on food produced in the countries of occupation. To gain much needed foreign exchange and prestige, some wheat is being exported.

The greatest amount of wheat that Russia ever exported in one year was 225 million bushels. That was in 1910. Usually the amount has been much less,

and even that was made possible only by a low standard of living among many people. Since the advent of Communism the annual export of wheat has been a mere trickle, and even that in the face of hunger among some of the people. Wheat export by the United States was 500 million bushels in 1948. The total production of wheat during that year was 1,313 million bushels in the United States and 1,025 million bushels in Russia.

Why is it that agriculture is such a weak link in Russian economy? Does she not possess one-sixth of the world's land area? Yes, that is true as regards total land area, but land alone will not produce food. Land must be accompanied by a favorable climate. In Russia, by and large, the climate is either too cold, too hot, or too dry. Then, unfortunately for the Russian people, the men in the Kremlin who have imposed themselves as leaders since the advent of Communism, have had little or no knowledge of agriculture. Lenin, Trotsky, and Stalin were never close to the soil. Their main interests have always been associated with social and political unrest and upheaval. As a result of their ill-conceived policies, the agricultural production in recent years has been even lower than the rather unsatisfactory level before the advent of Communism.

Food production the world over, and this has particular application to Russia, is limited more by a lack of precipitation than any other factor. A striking illustration of how lack of precipitation limits food production is provided by the following example: The state of Iowa with an annual precipitation of 30 to 35 inches generally produces a greater

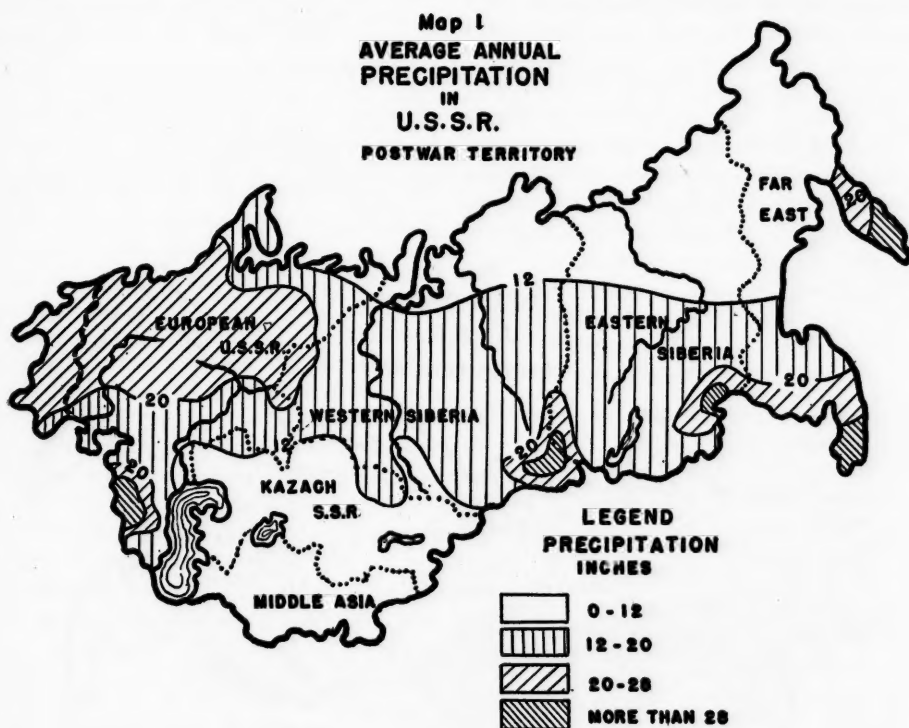
† *Editor's Note.* The authors of this article have made an extensive study of this subject and both have particular competence to evaluate the situation under discussion. Professor Truog is a recognized authority in soils science. Mr. Pronin was born in Russia where he traveled extensively, particularly in the Ukraine where he attended a school of agriculture and forestry. Later, he was graduated from the College of Agriculture and Forestry at Prague and then was with the Ministry of Agriculture and Land Reform in Poland.

* Professor of Soils, University of Wisconsin.

** Department of Agricultural Engineering, University of Wisconsin. The maps and charts used herein and the data on which they are based were compiled by Mr. Pronin.

value of agricultural products than nine of our western states in the semi-arid region that have an annual precipitation of 10 to 20 inches and therefore depend largely on irrigation for crop production. In temperate regions an annual precipitation of 30 to 40 inches well distributed is the most favorable for crop production. That is what most of the eastern one-half of the United States gets. When the annual precipitation averages less than 25 inches, severe droughts become common.

northern portion of Siberia, constituting nearly one-fourth of the area of Russia, receives an annual precipitation of only 10 inches or less. This extremely low precipitation alone would make this region absolutely worthless for crop production. However, in addition to a lack of precipitation, the temperature is so cold that the subsoil over most of the area is permanently frozen—the so-called perma-frost. It is, in fact, so cold and dry for the most part that even trees cannot grow. This



Rain is Lacking or Soils are Poor

It is paradoxical that in this vast area of Russia no large areas of high crop productivity exist: either rain is lacking, soils are poor, or it is too cold or too hot.

First, Map 1, *The Average Annual Precipitation in U.S.S.R.*,¹ shows that the mos-

vast area is called tundra, where only mosses and lichens flourish, and of animals, the reindeer alone for the most part is able to eke out a lonely existence.

¹ Based on data in *Encyclopedia Britannica, World Atlas* (New York: C. S. Hammond & Co., Inc., 1945); and M. M. Filatov, *Geography of the Soils of the U.S.S.R.* (Moscow: 1945).

Naturally, relatively few people care to and actually can and do live there.

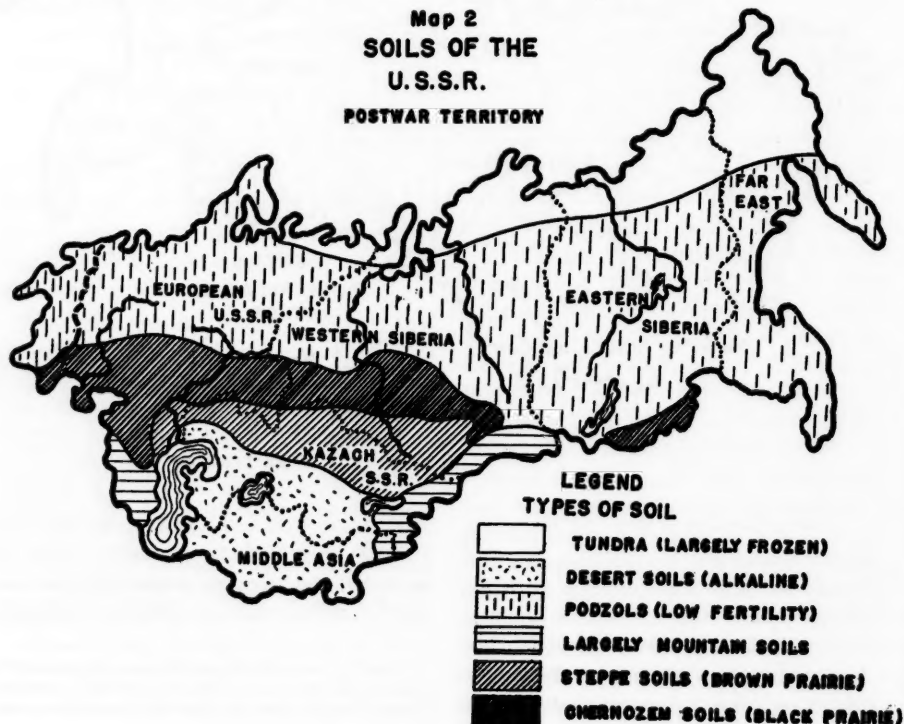
Next, it will be noted that another large region which also has only 10 inches or less of precipitation occupies the most southerly portion. This area is so dry and also so hot at times in many places that agricultural production supports only a nomadic or semi-nomadic population.

Reference to Map 1 shows that most of the northern one-half of European Russia has an annual precipitation of 20 to 28 inches. This with a relatively cool climate and moderately high humidity is tolerably adequate in most cases for crop production. From a precipitation standpoint, it is the best large agricultural area in Russia. However, except for a narrow belt to the south, the soils of this region, the so-called podzols (much-

leached soils formed under coniferous forest) are relatively poor. They are strongly acid and generally low in fertility elements. The principal crops grown—all adapted to poor soils—are rye, potatoes, buckwheat, and oats. Yields are generally low. The soils are too poor for wheat and the summer climate is too cool for corn. Here the diet consists largely of rye bread, potatoes and buckwheat mush.

Across the middle of Russia from west to east, covering nearly one-half of the country, there exists an enormous belt which receives an annual precipitation of only 10 to 20 inches—the same as the semi-arid region of the United States. On Map 2, which shows the soils of the postwar U.S.S.R.,² it will be noted that the

² *Ibid.*



so-called chernozem soils, the black prairie soils, exist in the southwestern part of this belt. It is reported that, in an average season, approximately three-fourths of Russia's food grains come from these fabulously rich black soils. This in large part is the region of the Ukraine. But precipitation here is not dependable. Droughts occur frequently and then, because surplus crop production of the country as a whole is dependent so much on this area, exports of grain decline to vanishing levels. In times past droughts have been so serious that famines have ensued.

Iowa, famous in song for "tall corn," normally plants corn on 40 percent of her arable land. This usually produces an annual tonnage of corn grain alone that approximates the total tonnage of all grains produced annually in the Ukraine. Data at hand seem to leave no question but that the total agricultural production of Iowa far exceeds that of the Ukraine. Although Iowa is only about one-third the size of the Ukraine and has slightly less than one-half as much arable land, the very favorable rainfall and other climatic characteristics as well as unusually fertile soil give this state unparalleled agricultural advantages.

The chernozem soils of Russia are precisely the same as the black soils of the Dakotas. The main reason why they are the same is because the topography and the climate, particularly the precipitation, have been and still are similar in the two regions. Under these conditions, prior to cultivation, prairie grass rather than trees was able to dominate the native vegetation for thousands of years. The profuse roots of this grass on rotting have given rise to much humus which makes the soil black and high in fertility.

We are all aware of the hazards of good crop yields in the Dakotas because of the uncertainty of the rainfall. Pre-

cisely the same situation holds in the region of the chernozem of Russia. The average yields of wheat in the Dakotas and the Ukraine are practically the same, namely, nine to twelve bushels per acre. Recent data on grains being harvested in the Ukraine indicate strikingly low yields, probably only one-third of what is recognized in this country as a good yield. In the more humid areas west of the Ukraine, such as those in Roumania, the wheat yield is twice as high or even higher, as is true in the more humid regions of the United States.

Unfortunately for the people of most of the areas of Russia where precipitation is inadequate, possibilities of irrigation are very limited because the rivers of the areas do not receive dependable supplies of water from regions of considerable precipitation as is the case in countries where irrigation is an important factor. The vast irrigated areas in India, the United States, and Egypt depend largely on water that originates in areas, usually mountainous, of high precipitation.

Russian agriculturists have said that crop production without irrigation is well nigh impossible when the annual precipitation is less than 12 inches. In the semi-arid regions of Canada and the United States, which have an annual precipitation of 12 to 20 inches, the so-called dry farming system (where one crop is commonly grown every second year) is practiced with some degree of success. A similar system is followed in the semi-arid regions of Russia, including certain areas of the Ukraine. Average yields, however, under this system are usually low. In some regions of Russia receiving an annual precipitation of 12 to 20 inches, such as the so-called Volga region, complete failure from drought usually occurs twice in each five-year period.

Collectivization Has Lowered Yields

Because of the rather unfavorable natural conditions that prevail over most of Russia for agriculture, it is of special interest to note what success the present regime has had in meeting these difficulties. Has agricultural production increased under Communism or has it declined?

In 1929 collectivization of agriculture was brought underway by Stalin on a vast scale: Under this system, operational units consisting commonly of about 100 farms each were organized, making it necessary in many cases for the farm families to be uprooted from their old homes and become re-established in hastily built quarters at the centers of operation for each unit or collective, called a "kolkhoz" by the Communists. One can well imagine the disruption and dissatisfaction that such a revolutionary undertaking could create. Its effect on agricultural production is of special interest here.

Figure 1 gives the yield of wheat per acre in Russia during the period 1913 to

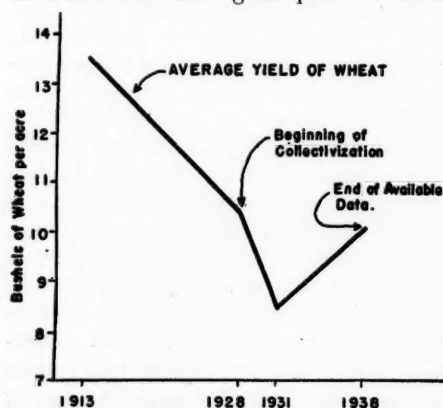


FIGURE 1—AVERAGE YIELD OF WHEAT IN U.S.S.R. PRIOR TO AND FOLLOWING COLLECTIVIZATION

1938.³ Following 1913, a rapid drop in yield ensued due to the disruption

³ Compiled from *United States Yearbook of Agriculture*, 1915 (Washington, D. C.: United States Government Printing

wrought by World War I. This drop continued following the war, and became even more severe following collectivization in 1929. From 1931 to 1938 (end of reliable available data), a slight recovery was attained, but the yield in 1938 was still far below the 1913 level.

Total production of the five principal grains just before and five years after the start of collectivization is given in Figure 2.⁴ It will be noted that the total yield of

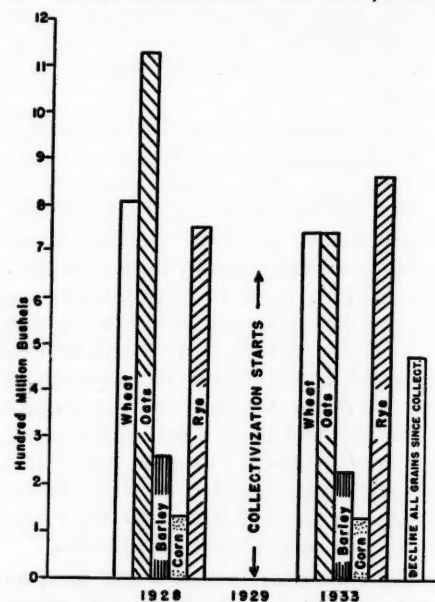


FIGURE 2—TOTAL PRODUCTION OF GRAINS IN U.S.S.R. PRIOR TO AND FOLLOWING COLLECTIVIZATION

the five grains is nearly 500 million bushels less in 1933 than it was in 1928. Only rye has increased, due probably to a greater acreage at the expense of other grains. A declining soil fertility would foster this change, since rye is better adapted to poor soils than the other grains.

Office) p. 420; 1935, p. 356 and Naum Jasny, *Socialized Agriculture in the U.S.S.R.* (California: Stanford University Press, 1949) Appendix, quoting from official data in *Socialist Construction and Socialist Agriculture* (U.S.S.R., 1947) p. 790.

⁴ From data in *United States Yearbook of Agriculture*, 1935 (Washington, D. C.: United States Government Printing Office) pp. 358, 374, 393, 404.

Of great interest is also the fate of the farm animal population under collectivization. Figure 3 gives this in terms of live weight for cattle, sheep and goats, and hogs.

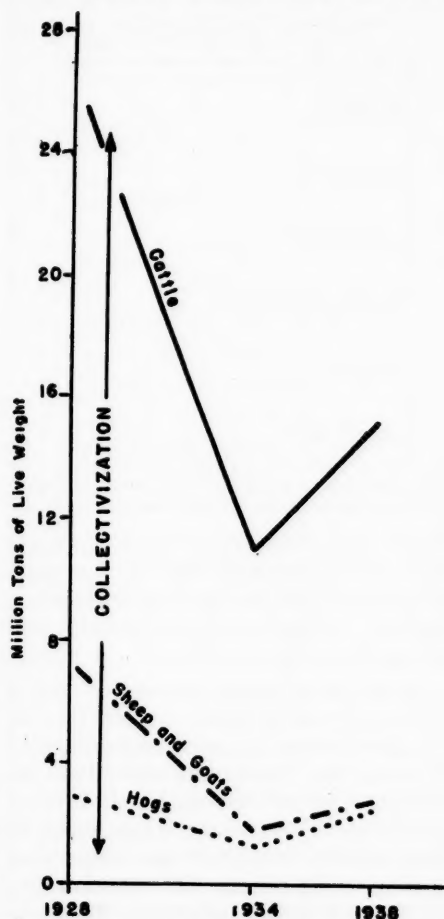


FIGURE 3—CHANGES IN LIVE WEIGHT OF MEAT ANIMALS IN U.S.S.R. FOLLOWING COLLECTIVIZATION

and hogs.⁵ A notable drop took place in all cases from 1928 to 1934, after which some recovery was made. At any rate, it cannot be said that the lessened food production in the form of grain has been

compensated for by a greater production of milk and meat.

Much has been said by the present regime about the mechanization of agriculture in Russia. Observations made and pictures taken within the past five or six years show that much grain is still harvested by hand and the old fashioned reaper. Even considerable plowing is done with a spade by women. To be sure, the number of farm tractors has increased greatly. However, the combined horse power equivalent of both tractors and horses was less in 1938 than that of horses alone in 1913 (see Figure 4).⁶

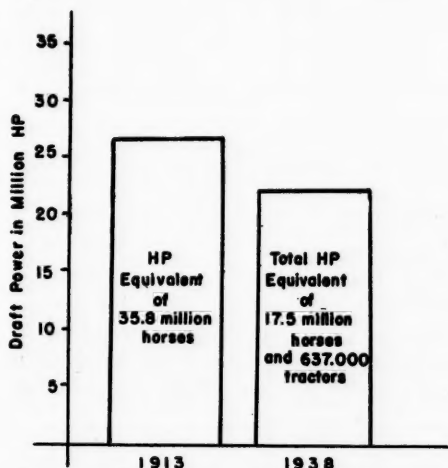


FIGURE 4—HORSEPOWER EQUIVALENT OF HORSES IN 1913 AND TOTAL OF HORSES AND TRACTORS IN 1938 IN U.S.S.R.

At the present time the horse population in Russia is less than one-third of what it was in 1913. This, with a lessened population of other farm animals, has greatly reduced the amount of animal manure available for soil fertilization. To compensate for this, a much heralded effort has been made to increase the supplies and use of commercial fertilizers.

⁵ Based on data in Jasny, *op. cit.*, p. 786, 787, quoting from *Census 1916, Animal Husbandry, U.S.S.R. 1916-1938* Gosplan: Moscow, 1940; p. 632 *Party Resolution of February 1947*; and p. 798 *Meat Industry of U.S.S.R. 1940*.

⁶ Based on data in Jasny, *op. cit.*, p. 632; and N. I. Anisimov, *The Victory of Socialized Agriculture* (Moscow: 1947) p. 90.

Figure 5 presents a graphic picture with respect to the success of this effort.⁷ It will be noted that the increase in supplies of commercial fertilizers has not compensated beyond a small degree for the decline in the supplies of animal manure. There is no question but that this de-

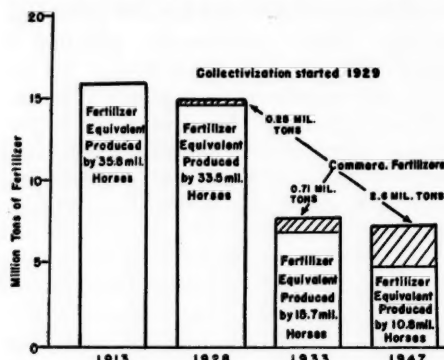


FIGURE 5—FERTILIZER EQUIVALENT OF MANURE PRODUCED BY HORSES IN 1913 AND TOTAL OF THIS MANURE AND COMMERCIAL FERTILIZERS FOLLOWING COLLECTIVIZATION IN U.S.S.R.

creased soil fertilization has contributed greatly to the decreased crop production since 1928. Exactly what portion has been due to this factor and what portion directly to the factor of less efficient or effective farming under collectivization are matters beyond ordinary estimation.

Food Production Per Capita is Low

Even though the natural conditions as regards good yields of crops are, in general, rather unfavorable in Russia, one might think that, because of the vast area of the country, the people could still enjoy an abundance of good food. That this is not true is well illustrated by Figure 6.⁸ Here it will be noted that crop production in terms of calories per capita during the period 1911 to 1913

was less than in Germany. This is most startling when it is recognized that Germany had available only about one acre of arable land per capita while

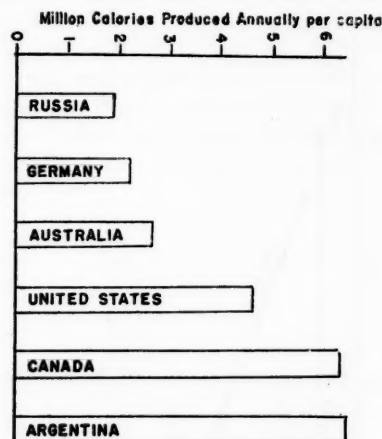


FIGURE 6—FOOD VALUE IN CALORIES PER CAPITA OF PRINCIPAL FOOD CROPS PRODUCED IN RUSSIA AND OTHER COUNTRIES PRIOR TO WORLD WAR I (AVERAGE FOR 1911-13)

Russia had nearly two acres (see Figure 7).⁹ The great importance of favorable climatic conditions for crop production, such as Germany has, is brought into strong focus by these facts.

With an increased population and a decreased crop production since 1913 in the more important agricultural areas of Russia, one must conclude that the adequacy of the current supply in total of the more important staple foods in that country is now at the lowest level during recent times. The question may well be asked, how much can Russia increase the food production within her own borders? Unquestionably, with adequate fertilization and good all-around management, a considerable increase can be effected. Since many areas of Russia are much better adapted to forestry than agriculture, there exists the possibility that, by means of already known methods, large supplies of wood

⁷ Data compiled from Jasny, *op. cit.*, p. 108, and p. 632. Calculations made according to *Prianishnikov Agrochemistry* (Moscow: 1945) in Jasny, p. 440-41.

⁸ Figures from V. C. Finch and O. E. Baker, *Geography of the World's Agriculture* (Washington, D. C.: United States Government Printing Office, 1917).

⁹ Figures from Finch and Baker, *op. cit.*

could be converted to sugars suitable for livestock feed and possibly even direct human consumption.

It would be an oversight not to note here that one of the principal items of

ordinary statistics of food production. Hence, such statistics do not always provide an exact picture of the adequacy of the available food supply of a country. However, here again it should be noted that vegetables are perishable, and are not ordinarily carried over from a season of plenty to one of famine as is possible with the grains. Thus, a shortage of grains following a poor season cannot be made up by a carry-over of vegetables. Furthermore, grains when plentiful at all in Russia are exported to gain much needed exchange rather than carried over. Thus the stage is set for occasional famines.

Why The Push Westward?

Can Russia engage herself in a prolonged war without facing the spectre of starvation by many of her people? That is a question that must weigh heavily on the minds of the men in the Kremlin. Because natural conditions for agriculture in Russia, particularly those relating to climate, are much less favorable than in most of Europe, the push westward of the Soviets is probably aimed not only to spread Communism but also to gain territory that is more favorable for agriculture. The wheat and corn lands of Roumania and Hungary, and the rye and potato lands of Poland and East Germany, are highly productive when measured by Russian standards. Still farther west come even more productive areas. Although the industrial capacity and know-how of the countries to the west are, of course, also decidedly in the picture, the Soviet leaders know full well that in the final analysis armies must march "on their bellies."

The great shortage of food that existed in Russia during World War II gave rise to a spectre that is still fresh in the minds of the men in the Kremlin. Although this was brought about partly by the ravages of the war in the Ukraine, these

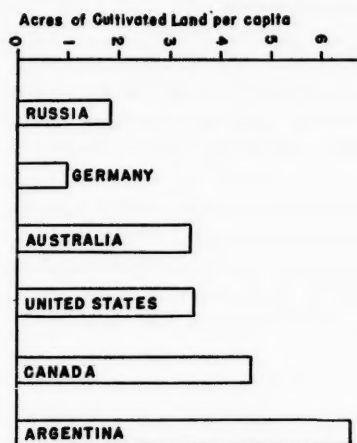


FIGURE 7—ACREAGE OF CULTIVATED LAND PER CAPITA IN RUSSIA AND OTHER COUNTRIES PRIOR TO 1917

food in many areas of Russia is the potato. In fact that country leads the world in the total output of this crop. The reason for this is that the potato is well adapted to the acid soils and the cool climate that prevails over much of the country. Then also, the potato serves as a wholesome food without need of any special processing. However, as a food for soldiers at the fighting front, the potato is too bulky and perishable.

On the basis of the food supply picture given here, one might wonder why the Russians are such a strong and stalwart people physically: Really, these characteristics apply only to the peoples of Southern European Russia, that is in the best agricultural areas. Outdoor life combined with a high-vitamin diet of vegetables, and unprocessed grains have undoubtedly been contributing factors. Considerable quantities of some of the food items, particularly vegetables grown in gardens are not commonly included in

men are aware that because of frequent severe droughts this region cannot be depended upon to supply the needed food in time of war.

The facts presented in this paper support our thesis that the picture of the U.S.S.R. as a vast storehouse or food granary is grossly exaggerated.

An Open Door in Italy

The Institute of Economics and Finance of the University of Rome, Italy extends to readers of *Land Economics* who may be travelling or doing research in Italy an invitation to take advantage of its library and laboratory.

Professor Guiseppe Ugo Papi, Director of the Institute, writes that a volume of Keynesian Studies, with contributions by some of the leading Italian economists, has just been published by the Institute and Professor Papi would like to see economists and political scientists particularly become acquainted with this service which has been established by the Institute.

I
of
so
Ne
ca

en
if
us
co
sh
ing
pu
for
as
go
inv
so
sl
vel
spe
out

C
sou
be
dev
wit
me
cos
imp

1
or
cap
be
full

† R
Foot
in Pa
* A
Wisco

II—The High Cost of Economic Development†

By MARTIN BRONFENBRENNER*

The Role of Inflation

IN the more general, not to say superficial, first part of this essay, the role of inflation was reserved for separate and somewhat more technical treatment. Nevertheless, certain preliminary points can be stated in a non-technical fashion.

Inflation, in the first place, need not encourage economic development and, if carried too far and too rapidly, will usually operate to discourage it. Under conditions of hyper-inflation, capital shifts from its ordinary activities (including the developmental) to the speculative purchases of gold, land, precious stones, foreign securities, and foreign exchange as inflation hedges. Specific capital goods, too, find their way to hoards in inventories to wait for higher prices and so are used for further production more slowly than normally is the case. The velocity of circulation of inventory, so to speak, will fall and the real national output and income suffer in consequence.

On the other hand, the monetary resources created through inflation may be made available in the first instance for development purposes. If so, inflation, within certain limits, encourages development in a number of ways, none of them costless in real terms. A few of the more important patterns are listed below.

1. Inflation permits the employment, or the fuller employment, of labor and capital resources which would otherwise be wholly or partially unemployed. The fullness of employment elsewhere in the

economy makes general expansion, developmental or otherwise, impossible without price increases or rigid controls, while substantial under-employment remains in important sections and industries. This is the familiar "bottleneck" situation. In the underdeveloped countries the primary "pocket of under-employment" is in family agricultural industry and in rural areas—that is to say, in upwards of 80 percent of both the population and the area of the countries concerned. Inflation appears to be required before the surplus family labor of the Oriental farm can be hired away, or the essential labor of the farmer himself secured during the agricultural off-season.

2. Particularly if "development authorities" exist, such as governmental bodies or public corporations, inflation may proceed through money or credit created directly for these authorities. The development authorities are thereby given first priority in acquiring the scarce resources they need before their prices have risen to their full extent. This is an aspect of the phenomenon of forced saving or forced frugality which has been discussed periodically in economic literature since the days of Bentham. Monetary or credit expansion gives the development authority the resources needed at the expense of the rest of the population. It should be noted that inflation encourages development through forced saving in an open economy to a greater extent than in a closed one because foreign exchange is often the most strategic resource which expansion makes available preferentially to the develop-

† Part I appeared in *Land Economics*, May 1953, pp. 93-104. Footnotes in this Part are numbered consecutively with those in Part I.

* Associate Professor of Economics, University of Wisconsin.

ment authority.⁸ On the other hand, inflation through forced saving does not encourage development to the same extent if the resources created are made available initially for consumption, wage increases, residential housing, general education, social services, or other purposes worthy in themselves but somewhat competitive with rapid material development. Successive doses of forced saving may also be decreasingly effective if the holders of development goods and foreign exchange learn to discount future inflation in advance and raise their prices immediately upon the first rumor of currency or credit expansion.

3. Development is encouraged when the authorities are permitted by credit expansion to raise the relative prices of the types of labor and capital goods required for development projects without imposing on other sectors of the economy the reductions in money wages and prices which would otherwise be required. The case of labor is particularly important in this connection in countries where the wages of skilled labor, foremen, and the like have traditionally been low relative to clerical and office workers, and where it is difficult to recruit labor for development projects at the going wage rates.

4. A slow inflation, or even a rapid one, in its early stages induces laborers to work more intensively for real incomes which are no higher and which may be lower than their previous level. To a lesser extent owners of land and capital may be induced to put their property to work more intensively in the same way when money incomes rise. We are dealing here, of course, with the effects

of the well-known "money illusion." The product of the extra labor and other output which the money illusion generates will seldom be limited to anything which can be termed development, but it can be concentrated in those fields by development authorities adept and cynical enough to combine the pressures of forced saving with those of money illusion.

In speaking of credit creation and monetary expansion we have ignored tacitly the possibility of simultaneous offsets in the form of increased taxes or monetary contraction elsewhere in the economy. But in fact such offsets are difficult if not impossible in most underdeveloped countries by reason of their embryonic systems of banking and taxation. We may state as a general principle that inflation is often inevitable when economic development is financed by credit creation, even when the necessary heavy capital goods are imported free of charge or on a barter basis.

Taking the first point first, regarding offsets to credit creation: In countries without developed income taxes or other progressive tax systems, the distributive effects of inflation, bad as they are, may still be superior to those of the higher indirect taxes on land and on essential commodities which are the only feasible alternatives. Similarly, in countries without developed systems of commercial and central banking, especially where large sectors of the economy operate on a barter basis, it is difficult to employ monetary policy as an alternative to inflation in view of the slow and tortuous process of its operation. Direct controls, too, are practically unenforceable outside the major urban centers of most underdeveloped countries.

It is less easy to realize that inflation remains a problem even when heavy capital goods for development projects

⁸ This observation I owe to Professor Takata who uses it to explain in part why the process of inflation, which appears to have been effective in furthering Japanese economic development during the Meiji Era (1867-1912) when Japan was opened to foreign trade, failed to promote reconstruction during 1945-1948 when international intercourse was regulated strictly by the Allied Occupation.

a
A
7
C
g
l
o
n
n
M
S
F
e
fr
th
fo
c
fu
lo
ev
sc

th
m
ca
de
w
D
"I
P

se
in
ve
als
—
par
Eas
1
fun
the
Jap
vice
Jap
thro
Fur
to M
11
Key
194

are imported free of charge, as in the American aid programs in South Korea, Thailand, and elsewhere in Asia.⁹ Granted that the fixed capital be supplied gratis, there will be inflation unless the labor and other domestic-currency costs of putting it to work are paid for by means other than inflation. To minimize inflation through this process the Mutual Security Agency of the United States has required of Thailand and the Republic of Korea (to continue the same examples) the setting up of counterpart funds in local currency equal in value to the capital goods being supplied gratis for the purpose of meeting those local currency costs. Since the counterpart funds may be set up from the proceeds of loans as well as from those of taxes, however, the effectiveness of this procedure is somewhat questionable.¹⁰

Graphic Analysis

Certain of these arguments regarding the role of inflation in economic development can be illustrated, and their implications clarified, by a graphical analysis derived in its main essentials from the work of Professor Don Patinkin.¹¹ Diagram 1, however, is an ordinary "Keynesian cross," with no distinctive Patinkin embellishments.

The horizontal axis of this figure represents national disposable income (after income taxes) in money terms. The vertical axis represents its components, also in money terms. These components

are usually classified as: consumption expenditures, private net domestic investment, government expenditure for goods and services, and the export surplus.

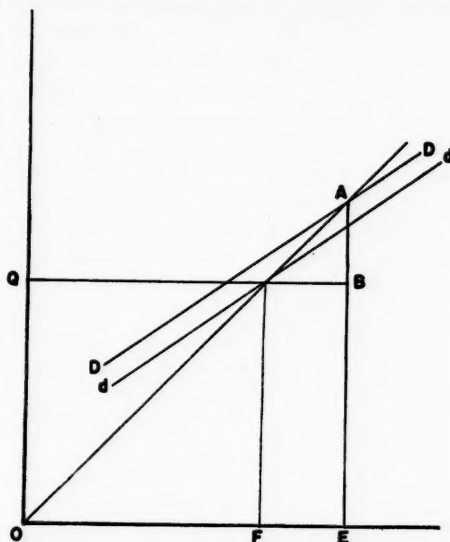


DIAGRAM 1

(The second and fourth of these may be negative.) Total expenditure or aggregate demand DD cuts at A the 45-degree line of equality between income and the sum of its components, which may be looked upon as a supply curve. The income level E corresponding to point A is therefore an apparent equilibrium point.

DD, it should be noted, is a total expenditure function and not merely a consumption function. By considering it stable in money income and its components, we must abstract from price changes so drastic as to render this assumption ridiculous. (We do not identify the maximum price level change consistent with a stable expenditure function in money terms.)

At full employment, however, the total real income produced is only F (which equals Q), real income being measured in the prices of the beginning

⁹ For a more detailed treatment of the Korean case in particular, see ECAFE, *Economic Survey of Asia and the Far East*, 1951, pp. 295-300.

¹⁰ The counterpart funds mentioned here differ from the fund set up in Occupied Japan where the actual proceeds of the sale of aid goods to the population were impounded. The Japanese type is more effective as an anti-inflationary device since the purchase of the aid goods supplied gratis to the Japanese Government was not financed directly or indirectly through consumer credit expansion. (The Counterpart Fund set up in connection with the American wheat loan to India in 1951 was of the Japanese type.)

¹¹ Don Patinkin, "Involuntary Unemployment and the Keynesian Supply Function," *Economic Journal*, September 1949, pp. 365-68.

of the period under consideration. F is less than E , and is drawn to the left of E on the horizontal axis. There is an inflationary gap AB , filled in practice by price increases, which makes of E something other than a full equilibrium income level. Measures to reduce DD to dd , so as to eliminate "over-employment" and the inflationary gap and provide full equilibrium at income level F , are usually suggested in such a situation. This is because F itself, the real income supplied at full employment, is conventionally considered independent of any income level either money or real. Usually the easiest way to reduce aggregate demand from DD to dd has been the cutting of economic development projects, armament expenditures, or social welfare programs. Nothing in the formal analysis, however, suggests where the reductions should be made. (Nothing in the formal analysis of the opposite case, where E lies to the left of F , suggests where demand should be supplemented to eliminate the gap, this time deflationary, and maintain full employment.)

Following Patinkin, I propose to complicate this presentation in the interests of realism by allowing for the effect of aggregate money income on aggregate real supply at full employment. This involves making the level of full employment output a variable, and substituting for the horizontal line FB of Diagram 1 a curve SS expressing the variation.

Let us use the vertical axis of Diagram 2 to represent simultaneously the monetary components of income (on the demand side) and real income (on the supply side). By real income is meant, as usual, money income at prices prevailing at the outset of the period under consideration. Money income is related to real income at full employment by an aggregate full employment real supply function SS , which replaces the line QB

of Diagram 1. The aggregate *full-employment real* supply function SS should be distinguished clearly from the aggregate *money* supply function at *varying* employment levels represented by the 45-degree

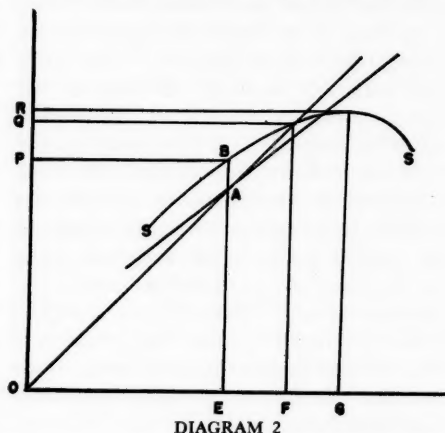


DIAGRAM 2
Note: The aggregate demand curve crossing the 45-degree line at A in Diagram 2 above should be labeled DD .

line. The crossing of SS and the 45-degree line gives the full-employment income level F and the real full employment output Q , at the given price level. When E lies to the left of F , as it does in Diagram 2, a deflationary gap BA results, which is filled by price-cutting and/or by employment at a level less than full. Real income and output, moreover, fall from Q to P even at full employment and below P if unemployment persists.

As a stability condition, SS should lie above DD at low levels of money income, meaning that aggregate demand falls short of full-employment production. On the other hand, SS should lie below DD at higher levels, meaning that aggregate demand exceeds production even at full employment, producing the phenomena of "inflationary gap" and "over-employment." A horizontal SS satisfies these conditions and is in fact assumed as a first approximation by most economists. Patinkin pictures SS as a straight line

with a small upward slope. In our own presentation, SS increases, although at a decreasing rate, to a point corresponding to an income level G, normally to the right of F. Here SS reaches a maximum real output R and then turns downward. The maximum real output R and the corresponding money income level G are points of especial importance in considering economies with problems of reconstruction, development, or mobilization. We shall hear more of them later on.

Why does SS slope upward, usually to a point considerably beyond full-employment equilibrium? The upward slope represents partially the effects of general money illusion; labor and other productive services offer longer hours or more intensive activity in return for higher money incomes, even under conditions of mild inflation. At the same time, a program of forced saving, as in the interest of a development program, can partially divert a given quantity of real aggregate demand from consumer's goods to capital goods and to foreign exchanges. If this is done, the effects on real production will be favorable. These are not complete explanations of the upward slope, however, particularly toward the left side or low-income portion of the diagram. Here it may be caused largely by more favorable expectations and by diminishing uncertainties as demand increases; price changes need not be involved at all. Furthermore, we may look at the upward slope in reverse; that is to say, as a cut in real production at full employment when money incomes fall. This cut represents the effects of resistance by workers and other factory owners to cuts in their money returns. The effects of strikes and slowdowns, labor force reductions, inadequate capital replacements, etc., are thus included.

Why may SS turn downward above G? Probably the most important single reason

in most countries is a shift of economic activity from current production to the hoarding of inventories and foreign exchange as inflation deprives the money illusion of its force. The involuntary unemployment which sometimes features hyper-inflations results from the same shift in activity. A secondary force, in countries dependent on imported raw materials, is their increased prices and reduced volumes as inflation raises the value of foreign exchange. Finally there is a tendency, familiar to economists since the Mercantilist era, for factor supply curves to turn backwards after real income rises to a series of critical points, none of which necessarily corresponds with the maximum point on SS in Diagram 2. In the language of utility analysis, the marginal utility of real income falls as its amount increases, and the marginal utility of leisure rises, together with that of direct consumption of productive resources until, at a series of critical points, the supply functions of the various productive services reverse themselves. When enough of these reversals have occurred, total production can also be expected to fall as the economy turns from hard labor to lotus-eating. The point of falling total production from this cause may conceivably come before full-employment demand is satisfied (i.e., to the left of F in Diagram 2). This situation would result in maximum output being reached under *deflationary* pressure at somewhat *less* than full employment. It can be imagined most readily in countries with extremely unequal distributions of income where work is done by a labor force with simple tastes and limited demands and output is consumed by a leisure class which does no work. While an interesting theoretical curiosity, this case does not seem realistic for any economy of which the writer has knowledge.

The aggregate demand and supply functions DD and SS have been drawn not only as stable but also as independent of such variables as the distribution of income. The independence of total expenditure (including induced investment) and the income distribution is probably legitimate as a first approximation although Socialist and laboristic writers may wish explicit recognition of the possibility of an upward drift resulting from increasing the degree of equality and the relative share of labor. The independence of total supply and the income distribution is more questionable, in view of evidence (incompletely verified, it is true) from centrally-planned economies ascribing rapid rises throughout the length of SS to shifts in income distribution in favor of the laboring class as a whole and particularly the more highly-skilled elements therein.

For countries in the throes of economic development, the inflationary gap of Diagram 1 is usually more meaningful than the deflationary setting of Diagram 2. Diagram 3, which combines the essen-

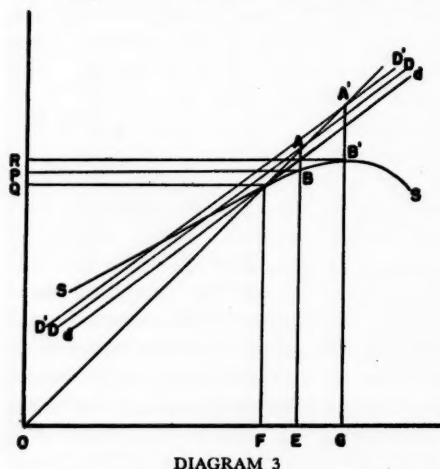


DIAGRAM 3

tial elements of the other two, is submitted as presenting most realistically the persistent policy dilemma which con-

fronts developing countries. Here, as in Diagram 1, we have over-full employment with an inflationary gap. Given the aggregate demand or expenditure curve DD, E is the equilibrium level of money income. But equilibrium monetary demand A exceeds full-employment real supply B; AB is the inflationary gap. If demand were cut back to the level indicated by dd, full equilibrium could be established at the income level F, and the inflationary gap eliminated. So far so good, but there would occur at the same time a consequence less welcome, namely, a cut PQ in real production. At the same time, real production could be increased beyond P (called forth at income level E), as far as R (elicited by income level G). This could be done by further increases in the aggregate demand schedule, from DD to D'D'. But, if demand rises to D'D', the inflationary gap increases with it. On the diagram, when production increases by PR the inflationary gap increases from AB at income level E to A'B' at income level G. In practice, a larger proportionate inflationary gap leads to a more rapid rate of price increase in an open inflation, and increases the difficulty of maintaining controls in a suppressed one.

Faced with aggregate money demand functions and full-employment real supply functions like DD and SS respectively, a developing country and its development program find themselves under simultaneous pressure from opposite directions. Should real output be increased at the cost of inflation for however long a period may be necessary to complete a given development plan or a given stage in such a plan? Or, on the other hand, should price stability be purchased at the cost of development retarded in the short run? There is conservative, orthodox pressure for withdrawal to dd, which would give full

equilibrium, full employment, and stable prices at F.¹² There is radical and nationalistic pressure for precisely the opposite maneuver, or a rise in demand from DD to D'D', for maximum production and development at G, and usually simultaneously for direct controls to moderate the social and economic inequities of the inflationary process. (Where controls raise SS, moving point B¹ to the northeast on Diagram 3 and increasing both G and R, so much the better. As a general rule, however, controls appear to lower B¹ and therefore R, to encourage evasion at the expense of production and to lessen the production advantage of the inflationary policy alternative.)

In the terminology of Professor A. P. Lerner's *Economics of Employment*,¹³ point F (or Q) corresponds to "low full employment" and point G (or R) to "high full employment." Professor Lerner estimates the range between F and G (or between Q and R) as sufficient under American conditions to provide employ-

ment for the marginal 8 to 10 percent of the American labor force. The estimate is of the roughest and cannot be applied to other countries. Suppose, however, that this range amounted to only half Lerner's estimate, or only five percent of of real national output. In terms of national output as a whole this increment would not be impressively large. But in terms of developmental investment, which is apt to be the most flexible item when we consider varying aggregate demand by conscious policy between such limits as dd and D'D', it is much more significant. The development program itself can rarely absorb more than 25 percent of the national output and usually absorbs less than 10 percent. The choice between dd and D'D', then, may mean the difference between no development program at all and a really substantial effort in this direction.

Faced with the political and social actualities of the mid-twentieth century, developing countries generally have chosen the route via high full employment but have borne with no particular equanimity the costs associated with their choice, meaning the burdens and injustices of inflation. (Such exceptional cases as the Burman deflation of 1949-52 deserve special note, commendatory or otherwise.)¹⁴ There is danger in many countries that the location of G be estimated too far to the right and R too far upward. As a result, inflation may be overdone through the effort to do too much too fast; real output may be reduced by the effort to make it exceed its peak. Japan in 1946-47 illustrates such an outcome. Successive Finance Ministers, in a deliberate attempt to squeeze the ultimate in production for the reconstruction of a war-ravaged country with substantial "disguised unemployment" in

¹² The International Monetary Fund is currently (1942-53) taking the lead in exercising pressure in this conservative direction. See an address by Ivar Rooth, Managing Director of the Fund, reprinted in *International Financial News Survey*, November 28, 1952, p. 175, in which the Fund's position is stated: "National policy in all countries must start with eliminating inflation, through strong budgets and tight credit. Obviously this is not consistent with the view that there must not be unemployment at any time in any sector of the economy In the under-developed countries there must be some moderation in their policy of rapid development at any cost." A fuller and more scholarly presentation of the same position is found in E. M. Bernstein and I. G. Patel, "Inflation in Relation to Economic Development," *International Monetary Fund Staff Papers*, III, November 1952, pp. 367-84, after analysis of the disappointing experience of several countries, notably the Latin American Republics and the Philippine Islands, with inflation as a major tool of economic development.

¹³ *Op. cit.*, (New York: McGraw-Hill, 1951), Ch. 13. Lerner favors direct controls, particularly over wage rates, to avoid inflationary pressure in the neighborhood of "high full employment." Professor Slichter, on the other hand, presenting what appears to be a similar analysis, accepts secular inflation as not only inevitable but the desirable consequence of striving for "high full employment," and doubts the feasibility of direct controls over wage rates. See "How Bad Is Inflation?" *Harper's Magazine*, August 1952, pp. 53-57. Professor J. M. Clark appears to concur: "Aims of Economic Life as Seen by Economists," in A. Dudley Ward, *op. cit.*, p. 45.

¹⁴ For an analysis of Burman Experience, see ECAFE, *Economic Survey of Asia and the Far East*, 1951, *op. cit.*, pp. 292-95.

its agricultural regions, over-shot their mark and pushed money income far beyond G. Reconstruction might have been considerably more rapid had there been fewer incentives to wait and hoard materials rather than to produce.

The dilemma of price stability versus maximum output, of low versus high full employment, should not be conceived as limited to under-developed countries or to countries recovering from war or other catastrophe. Since the outbreak of the Korean War in 1950, the United States and much of Western Europe has been balanced more or less precariously at income levels such as E in Diagram 3. These money incomes are too high to eliminate inflationary pressure and at the same time too low to elicit maximum productive effort. Both direct controls and indirect offsets to military expansion are more available to these countries than to, say, Chile or Thailand; but political pressures and the legitimate fear of cutting output even temporarily have delayed and prevented their use.

Under these circumstances, such economic conservatives in the United States as Senators Taft and Byrd, and ex-President Hoover, have advocated drastic retrenchment in government expenditures. The net effect of their recommendations would be a reduction of aggregate demand from DD at least to dd, and quite possibly lower. Proposals for sharply increased taxes and for general credit restriction would operate in the same direction. On the other hand, the Truman Administration and the Council of Economic Advisers have supported policies of maximum production, holding aggregate demand at DD or raising it toward D^1D^1 despite the resulting increases of inflationary pressures.¹⁵ The

position of a developed country relative to rearmament or mobilization has, it would seem, basic similarity to that of an undeveloped country relative to its development program.

Successive Periods

If an expansionary (inflationary) alternative is in fact taken in the situation of Diagram 3 and if equilibrium monetary demand generates an inflationary gap, will the resulting inflation be temporary and self-liquidating, or will it be long-term and perhaps explosive? The question is fundamental for policy decisions but cannot be solved by the apparatus we have developed here. This apparatus deals with a single period but we can nevertheless extend it to an elementary sort of "period analysis."

Let us consider only D^1D^1 and SS on Diagram 3, supposing the decision has been made to maximize real output and the speed of economic development. What will be the position of these functions, D^1D^1 and SS, in the next period after prices have risen or controls have been imposed? D^1D^1 will move upward unless controls are extraordinarily effective. Higher prices require more expenditure out of given money incomes if living standards and real investment are not to suffer. The effects on SS are more complex. Any rise in the price level will raise SS vertically, by definition. If real output means output measured in prices at the beginning of the period, its schedule must rise from period to period as prices rise even if physical output be unchanged. (Ambiguity in this definition of "real output" is unfortunate and regrettable.) There will in addition be a vertical rise in SS as the development

¹⁵ The clash of views was brought out with especial clarity in hearings before the Sub-Committee on General Credit Control, Joint Committee on the Economic Report, United States Congress, on the occasion of the freeing of government

security markets by the Federal Reserve System in 1951. The hearings were reviewed by Herbert Stein, "Monetary Policy and the Management of the Public Debt," *American Economic Review*, December 1952, esp. p. 872 f., on the testimony and examination of Chairman Leon Keyserling of the Council of Economic Advisers.

program takes hold, increasing the amount of capital available and the productivity of productive agents generally. At the same time, however, SS will probably shift to the right unless controls are completely effective or money illusions exceptionally powerful. Otherwise, greater money returns to both labor and capital will be required to induce any given amount of effort or employment as prices rise. The net effect on SS, then, is movement in a roughly northeasterly direction on the diagram, whereas the effect on D^1D^1 is a movement to the north.

We can concentrate our attention on SS, and more particularly on its maximum point B^1 (corresponding to real output R), assuming aggregate demand more amenable to centralized control. If B^1 moves at a 90-degree angle with the horizontal, i.e., directly northward on the diagram, it will eventually rise to coincide with A^1 . There will be full equilibrium, and the inflation will have been of the once-and-for-all variety. If B^1 moves at an angle between 45 and 90 degrees in the northeasterly quadrant, successive inflationary gaps will become smaller and smaller from period to period and a new full equilibrium will eventually be established at a new and higher price level. The closer the critical angle to 90 degrees, the smaller will be the requisite inflation and the sooner its completion. If, on the other hand, B^1 should move at an angle of 45 degrees or less, the inflationary gaps would rise, or at least not decline, in successive periods. Inflation would be progressive or explosive. It could be checked only by drastic measures which involve real risks of substantial and continued reductions in output and employment.

Needless to say, the choice of policy between maximum-output and maximum-stability in the dilemma of Diagram 3 should depend largely upon the econo-

mist's or statesman's best judgment of the movements of points like B^1 , once inflation begins. The right answer for one undeveloped country may be completely wrong for its immediate neighbor, let alone for another country across the oceans on another continent. We can merely list a number of qualitative factors which, when present, will guide B^1 to a near-vertical path and render development by mild or marginal inflation relatively safe in a free economy.

1. Strong money illusions held by owners of productive services.
2. Strong monetary authorities, capable of restricting the monetary circulation when the pace of inflation rises, despite the objections of organized agriculture, business, and labor, and at the cost of temporary unemployment.
3. General agreement on desirable distribution of income between the major segments of the economy.
4. Direct control apparatus selected and enforced for minimum interference with production and minimum price increases.
5. Rapid reflection of economic development in increased per capita output of consumption goods.

Five contrary factors, which when present will guide B^1 to a near-horizontal path, make any inflation dangerous, and increase the attractions of the "sound finance" counselled by the International monetary Fund are:

1. Recent experience with inflation; money illusion largely dispelled.
2. Agriculture, business, and labor strongly organized, with political or economic power to enforce their monetary demands.¹⁶ Monetary authority weak, decentralized, or absent.
3. Sharp class conflicts regarding the distribution of income and wealth.
4. Direct controls badly chosen or ineffectively enforced. Generally under-developed public administration.

¹⁶ Space limitations prevent full development of this phase of the argument but, if for each dollar increase of money national income the total money claims of organized productive agents increase by more than a dollar, as they will if each organized group actively takes advantage of inflation to raise its distributive share, the result is instability. See M. W. Reder, "Problems of a National Wage-Price Policy," *Canadian Journal of Economics*, February 1948, pp. 46-61.

5. Long lag between inception of development programs and increased output of consumption goods.

Cursory examination of the economies of most under-developed countries in the period since 1945 or 1950 seems to show the second group of factors more potent

than the first, and therefore to explain the conservative shift of sentiment within the international financial organizations. On the other hand, no such shift of opinion is apparent in the under-developed countries themselves or in the United Nations organization proper.

For
C
and
of t
alm
tim
pro
tion
saw
Dow
cou
of o
mar
sure
sup
nati
now
than
fore
they
So
and
how
cutt
gro
of a
new
effec
trees
prot
sects
entin
fores
effici
has
fores
ingly
fores

* Dis
Oregon

The Revested Oregon and California Railroad Grant Lands: A Problem in Land Management

By WESLEY C. BALLAINE*

Forest Management in the Pacific Northwest

ONE of America's great natural resources is the forest belt in Oregon and Washington lying west of the summit of the Cascade Mountains which contains almost one-third of the nation's saw timber and contributes about the same proportion to the total national production of lumber. Nearly two-thirds of the saw timber now standing in this area is Douglas fir, the remainder being accounted for by a considerable number of other species. It is obvious that sound management of this rich resource to insure that it will constitute a permanent supply of timber is of consequence to the nation as a whole because our timber is now being cut at a far more rapid rate than it is growing and, if we are to have forests adequate for our needs tomorrow, they must be properly managed today.

Sound forest management is a long and detailed subject. Very briefly, however, it covers the following points: cutting the timber at the proper stage of growth, an aspect of which is the building of adequate access roads; assurance of a new growth of trees after logging, usually effected by leaving sufficient blocks of trees for reseeding the cutting area; and protection of the forests against fire, insects, disease, etc. Another aspect of the entire problem of the adequacy of our forest resources is the intelligent and efficient utilization of the timber after it has been cut. Carrying out desirable forest management programs is exceedingly difficult when the ownership of the forest lands is dispersed. The entire con-

cept of sustained yield presupposes that the ownership of the forests will be such that premature cutting will not occur and that the growing trees will be protected from hazards. One serious difficulty facing those people who are interested in sound forest management in the Pacific Northwest is to convince the private owners of relatively small areas of forest land that they should postpone cutting second-growth timber until it is mature, a time which may not arrive within the owner's lifetime.

The commercial forests of Oregon, the state with which this article is exclusively interested, cover about 30 million acres, an area nearly equal to one-half of that of the entire state. In round numbers, the federal government has title to 16 million acres, private owners hold 11 million, Indian tribes a little over a million, and the state and county roughly one-half a million each. The total volume of standing timber is approximately one-fifth that of the entire nation, about half of which is mature and over-mature. The largest part (about 13.5 million of the 16 million acres) of the federally-owned forest lands is under the control of the Forest Service (Department of Agriculture). A second part, consisting of 2.6 million acres and containing timber which, at present prices, is worth in excess of \$1 billion, is the Oregon and California lands which are under the control of the Bureau of Land Management (Department of the Interior), and constitute the subject of this paper. The federally-owned timber lands are becoming increasingly important because of excessive cutting on much of the privately-

* Director, Bureau of Business Research, University of Oregon.

owned land, although the "tree farms" owned by some of the large mills constitute important exceptions that are growing in number.

The "Oregon and California" Lands

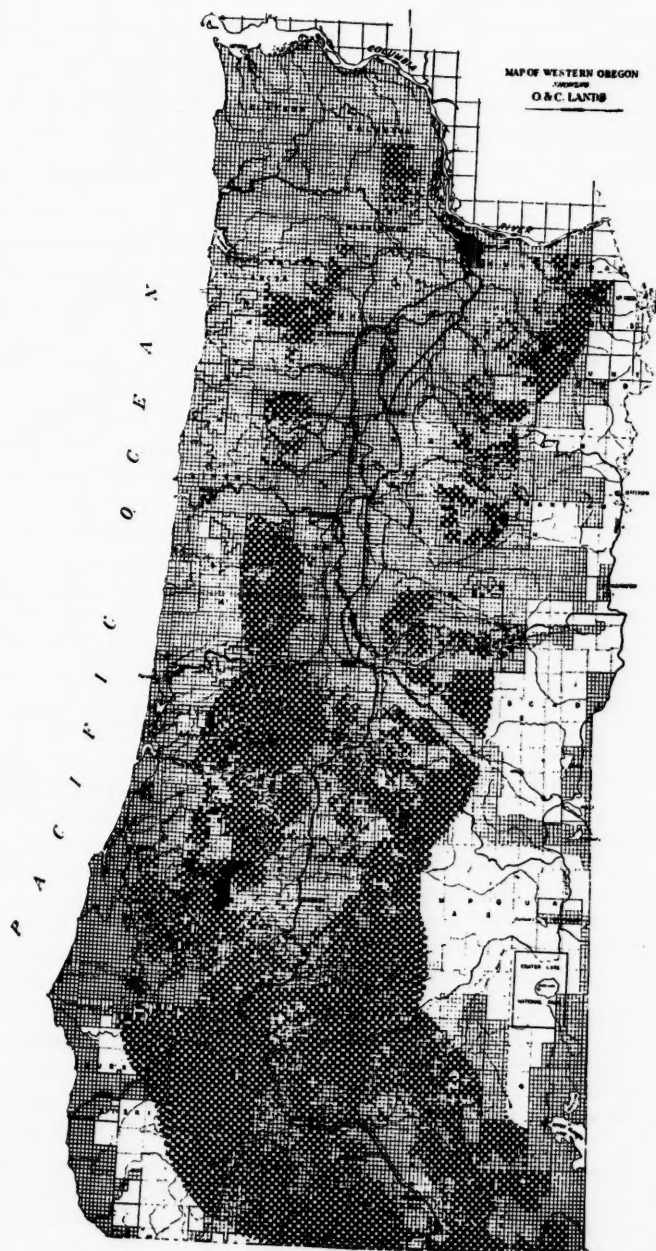
The successful management of Oregon's forests must be built around the federally-owned lands because of their size. For the most part, the National Forest lands form large consolidated areas with relatively little intermingled lands so that even without the cooperation of other landowners, the National Forests can be soundly managed. The Oregon and California forests are another matter entirely. They appear on a map as a vast checkerboard which, if combined into a single block, would be almost as large as Connecticut. They are scattered between the Washington border on the north and the California border on the south and are, for the most part, west of the Cascade Mountains. There are few parcels of land having an area larger than a square mile and some are as small as 40 acres.

The Oregon and California lands now have 50 billion board feet of standing timber, about 13 percent of the state's total, yet only 5 percent of all logs in the state come from Oregon and California lands despite the fact that much of the timber standing on these lands is over-ripe and deteriorating. They are not now being managed in such a way that the maximum cut under sustained yield can be realized partly because the lands are in a checkerboard pattern, which makes it difficult for either the O and C lands or the intermingled private lands to be soundly managed by themselves. Legal provisions exist for formal cooperative management of the O and C and the intermingled private lands, but local public attitudes have been such that their utilization has been prevented. A second

reason for the inadequate yield has been the reluctance of Congress to appropriate funds for access roads to facilitate the removal of logs and the protection of the growing timber from fire and insect blights. The reason for the Congressional attitude has been that the counties in which the lands lie receive 75 percent of the gross receipts of the sale of the timber and Congress appears to feel that a larger share should go to the federal treasury. A further management weakness is that one federal agency is in charge of the National Forests and another is in charge of the O and C lands. The Hoover Commission and many others have recommended that the Forest Service take over the control of the O and C lands to provide uniform policies for all federal forests and reduce administration costs. The objection locally to such a step is that this might reduce the counties' share of the gross receipts to the same proportion they receive from the sale of national forest timber.

A particularly difficult problem is that of the so-called "controverted lands." Of the one million acres of O and C lands within the boundaries of the national forests, 463,000 are claimed by the Forest Service (Department of Agriculture) to be national forest land and by the Bureau of Land Management (Department of the Interior) to be O and C lands. Since the beginning of World War II there has been an interdepartmental agreement in effect regarding the management of these controverted lands.

The causes of two agencies controlling Oregon's federally-owned forests are historical. An important reason why this situation persists is that a change would probably alter the distribution of the money received from the sale of timber, which is a substantial amount, and the potential losers have been able to prevent a disturbance of this kind. The balance



of this paper will explain the history of the O and C lands and give the historical explanations why the gross receipts from timber sold on them is so much less favorable to the federal government than for timber sold on other government-owned land.

Origin of the Grant

In the period immediately following the Civil War there was a great public interest in developing the west. Congress, in keeping with this attitude, gave many subsidies in the form of land grants to states and private corporations for the purpose of aiding the construction of rail and wagon roads. One of these was a grant made to the Oregon and California Railroad Company to help it construct a line entirely in Oregon running from Portland to the California border south of Medford. The California and Oregon Railroad Company at about the same time constructed a line from the Central Pacific just east of Sacramento to the Oregon border where it joined with the Oregon and California tracks (both of these now form part of the Southern Pacific lines in Oregon and northern California).

The Oregon and California grant was made July 25, 1866.¹ This grant set aside lands from the public domain that could be patented as construction progressed. The lands covered were all the odd numbered sections not already homesteaded or sold and non-mineral in character extending twenty miles on each side of the railroad right-of-way. If all of these sections could have been taken up by the company, it would have acquired some 4,220,000 acres. However, since much of the land in the valleys through which the railroad was constructed was already settled, another ten-mile strip was added to each side of

the original grant from which the company could select odd-numbered sections to make up for the ones lost in the original place strip, but the additional sections in this "indemnity strip" did not equal those lost so that the total area to which the railroad was entitled was approximately 3,728,000 acres. This made a corridor sixty miles wide, thirty miles on each side of the right-of-way, from which the railroad could claim the odd-numbered sections; it is to be remembered, though, that many squares in this checkerboard were missing because of homesteading or sale.

Three years later Congress renewed the grant because no construction had occurred within the time limits of the original Act. This renewal² contained three restrictions on the sale of the grant land by the company: (1) land could be sold to actual settlers only, (2) not more than 160 acres could be sold to any one settler, and (3) none could be sold for more than \$2.50 per acre.

Grantee's Attempt to Sell Grant Land

Prior to 1890 the railroad company did not sell much of the land (163,000 acres by 1887) because little of it was suitable for farming and the timber was not then valuable. Thus, as a subsidy to aid construction, the grant was not particularly successful; in fact, the line was in receivership when the Southern Pacific leased it in 1887. During the 1890's, timber began to rise in price and the company disposed of some of its land to timber speculators in units larger than 160 acres and at prices in excess of \$2.50. This was in clear violation of the terms of the grant. A considerable amount of land was sold for its timber between 1890 and 1903 along with small amounts for farms.

¹ 14 U. S. Statutes 239 (1866).

² 16 U. S. Statutes 47 (1869).

By 1900 the eighteen counties in which the grant lay were assessing and collecting real property taxes on the unsold grant lands on the basis of valuations generally in excess of \$2.50 per acre (the maximum price at which the company was supposed to sell its land). The grant lands which had been sold were, of course, also on the tax rolls.

Suspension of Land Sales

In 1903 the company stopped the further sale of land. No reason was given except that the company wished to retain it for its own purposes—presumably as a source of timber. No further land was sold from the grant by the company as long as it remained the grantee. This was obviously a complete reversal of policy by the railroad, the reason for which was never fully explained.

Resentment in Oregon at this decision was intense.³ The company continued to pay its real property taxes on the grant lands but the cessation of sales dampened a growing boom based on timber. The viewpoint in the area in which the grant was located was that the company had been given the grant in order that settlers would be placed on the land. That is, the railroad company was looked upon as a vehicle for converting what had been unoccupied land into farms. It is true that land which is now considered suitable for agriculture was in pioneer days covered with forest so that the initial step in creating a farm was to log the standing timber. Thus the decision of the railroad company not to sell its land was popularly construed as a body blow not only to the lumber industry but also

to adding new farm land to the state. This attitude was in contradiction to the facts as the grant lands are still almost entirely unsuited for agricultural use because they are located in rugged terrain.⁴

Local pressures demanding that "something be done" about the railroad company's decision not to make additional sales eventually resulted in Congressional action. On April 30, 1908, after considerable investigation of the complaints against the company, Congress by joint resolution directed the Attorney General to institute court action to protect the interests of the United States.⁵ This resulted in a suit to cancel the grant. The story of the suit is entirely too complex to be given here. Suffice it to say that in 1913 the Oregon District Court held that the unsold lands were forfeited to the government because the grantee violated the terms of the grant. The company appealed, but immediately stopped paying the local real estate taxes on the grant lands. The Supreme Court reversed the forfeiture decision of the District Court, ordered an injunction forbidding the Company from making any further sales and suggested that Congress might enact legislation providing for the disposition of the unsold grant lands. At the same time it ruled that Congress should pay the railroad a sum which would give the railroad \$2.50 per acre for the entire grant (this meant government payment for the total number of acres at \$2.50 minus the amount, including overpayments, the company already had received).⁶

³ The concept that the O and C grant has been mismanaged by not throwing it open to settlement has died slowly. As recently as 1952 A. W. Lafferty ran (unsuccessfully) for Republican nomination for member of Congress from the Third Oregon Congressional District on a platform the principal plank of which would turn the O and C grant over to the state of Oregon and then "our legislature would undoubtedly provide by equitable laws for thousands of small homes of a few acres each." Advertisement in *Portland Oregonian*, January 6, 1952, p. 19.

⁴ 35 U. S. Statutes 571 (1908).

⁵ 238 U. S. 393.

⁶ See testimony of Senator G. E. Chamberlain of Oregon (who was Governor of the state from 1902 to 1909), U. S. Congress, House of Representatives, *Oregon and California Land Grants*, Part 5, Hearing before Committee on Public Lands, U. S. House of Representatives, 64th Congress, 1st Session, on H. J. Res. 58, H.R. 9814, 10058, and 12116 (Washington: Government Printing Office), pp. 143-5.

It is impossible to tell the exact size of the grant at different dates because it was not completely surveyed and the number of acres shown in different sources do not reconcile. However, at the time of the court decision, about 2,891,000 acres of the original 3,728,000 acres were unsold.

Government's Attempt to Sell Grant Lands

At the time the government took back the grant the prevailing sentiment in both Oregon and Congress was that the railroad policy of withholding the land from sale should be reversed immediately. Apparently sufficient vestiges of the pioneering attitude remained so that it was tacitly assumed that once the grant was "opened up" actual settlers would pour in and it would soon be utilized for agricultural purposes.

The existence of valuable timber on much of the grant made any simple plan of liquidation impossible. For the most part, the standing timber was worth many times \$2.50 per acre. The feeling was generally held that the timber, but not the land, should be sold for its fair market value. In the interim between the district court decision calling for forfeiture and revestment, there were innumerable attempts to obtain O and C timber cheaply, several of which received much adverse publicity. However, there appeared to be no clear cut view as to where the "unearned increment" in the value of the timber should go. As might be expected, local opinion in Oregon was that this windfall should be retained in the grant area, the suggestion being frequently made that it be used for schools and roads. Little, if any, serious consideration appears to have been given to the possibility of the federal government retaining the timber profits.

An important facet of the problem was the disastrous effect the litigation had on the finances of the eighteen counties in which the grant lay. The railroad com-

pany did not pay taxes on its unsold lands after July 1, 1913, the date of the entry of the decree of forfeiture. By 1916 the arrearages, exclusive of penalties, totalled almost \$1,600,000 and were accumulating at the rate of \$400,000 per year. In some counties as much as 25 percent of the real estate taxes were assessed against the Oregon and California grant lands. In seven the federal government already owned an average of sixty percent of the land, upon which the county was paid no taxes⁷ and, if the grant lands reverted to public domain status, no local real estate taxes whatever would be paid on them and this would be catastrophic to the counties involved.

Congress was, accordingly, faced with the task of adopting a policy which would make the grant lands available to settlers but not to timber speculators while at the same time providing the counties with income to recompense them for the taxes they were losing through revestment. It attempted to meet these requirements by passing the Ferris-Chamberlain Act, approved June 9, 1916.⁸ The policy it expressed called for the outright liquidation of the grant by sale, although on a different basis than had been legally available to the railroad. The timber and the land were to be treated separately. The timber was to be sold as quickly as possible and, after it had been removed, the logged-off land was to be available for homesteading at \$2.50 per acre. Land in the grant which was not timbered or which had already been cut over was to be immediately available for homesteading at \$2.50 per acre. The receipts from the sale of the land and timber were to be apportioned in a manner explained in the second paragraph below. No provision was made for the development of any forest

⁷ Most of this federal land was national forest.

⁸ 39 U. S. Statutes 218 (1916).

management policies or such conservation practices as the protection of stream flow. Neither was there any consideration of the effect upon the economic life of the area of the rapid cutting of timber, and the legislation was without provision for reforestation.

The agency chosen to carry out this policy was the General Land Office (Department of the Interior) despite the fact that the forested portions of the unappropriated public domain had, to a considerable extent, been transferred to the Department of Agriculture as national forests during the decade prior to revestment. The General Land Office managed the Oregon and California lands separately from other lands under its control.

A second objective of the Ferris-Chamberlain Act was to give financial aid to the counties in recompense for the loss of tax revenue during the interim beginning with the non-payment of taxes by the railroad and ending, it was hoped, with the creation of new farms on the grant land. The General Land Office placed the funds it received from the sale of land and timber into the Oregon and California Land Grant Fund. The first priority of payments from this fund were to be made to the railroad in the amount of \$4,102,215.28, which was the difference between the total value of the entire grant at \$2.50 per acre and what the railroad had received from its own sales of land and timber after making appropriate adjustments for interest and unpaid land taxes. The next priority was \$1,571,044.05 to reimburse the United States Treasury for money paid to the counties for the 1913, 1914, and 1915 taxes which were due and unpaid at the time of revestment.⁹ After the preced-

ing obligations had been taken care of, the income from the sale of lands and timber was to be distributed as follows: 25 percent to the counties in lieu of taxes, 25 percent to the state school fund, 40 percent to the reclamation fund, and 10 percent to the U. S. Treasury.

The receipts placed in the Oregon and California Land Grant Fund were so far below anticipation that by 1926 only the amount due the railroad and a small part of what was owed the Treasury for the 1913-1915 tax payments had been paid. This low income resulted in no distributions having been made to the counties up to 1926 and none were then imminent. Furthermore, little grant land was being added to the county tax rolls through the establishment of new farms. As a result, the land grant counties became frantic in their calls to Congress for financial aid. Their pleas led to the passage of the Stanfield Act¹⁰ in 1926, which provided an appropriation of \$7,135,283.36 to be paid to the Oregon and California land grant counties in lieu of taxes for the eleven-year period from 1916 to 1926 inclusive, the 1915 assessed valuations being used to establish the amounts. This made a total of \$8,706,327.41 in lieu of real estate taxes (1913-16, and 1916-26) paid out of the fund from funds appropriated by Congress. The Stanfield Act also provided for the continuation of payments in lieu of taxes at the same rate, but failed to appropriate funds, apparently assuming that increased O and C receipts would be adequate to meet the payment requirements. After these payments were made, the remainder was to be applied to extinguishing the advances made by the Treasury and, when these

⁹ Most of this amount was owed by the railroad but the government paid it to the counties for the railroad. The court held that the railroad was not liable for taxes on an assessed valuation higher than \$2.50 per acre. Since a

considerable portion of the land had been assessed at a higher value, the taxes levied on this excess valuation were not chargeable against the gross amount due the railroad for the grant.

¹⁰ 44 U. S. Statutes 915 (1926)

had been repaid, the receipts were to be divided as outlined in the last sentence of the preceding paragraph. It will be observed that the counties were given priority over the Treasury in apportioning the receipts.

There were many reasons why the O and C timber was sold slowly. One was that much of the land was remote in view of the facilities for bringing out the timber that then prevailed. Another was that an O and C tract was never larger than 640 acres, and it was seldom that an operator was interested in logging such a relatively small area unless he could also log the intermingled private lands or, in some cases, the intermingled national forest lands. A third reason was that the Department of the Interior avoided making sales of timber that might be considered below the market price.

The attempt of the government to sell the grant in 160-acre tracts to settlers ended in 1937. After twenty-one years the government had succeeded in disposing of 405,253 acres to settlers and had sold the timber on another 130,206 acres. At the close of this phase of the O and C's story, the grant consisted of a little more than 2,600,000 acres.¹¹

The Ferris-Chamberlain Act in failing to place the grant lands in the hands of settlers had, naturally, also failed to provide much money. During these twenty-one years the receipts were \$3,269,719. By 1937 the Oregon and California land-grant fund had paid the railroad \$4,102,215, the counties \$12,572,973, and owed the counties an estimated \$2,020,666 in lieu of taxes and the federal government \$10,426,135 for funds it had advanced.

A Perpetual Income-Producing Forest

Since the passage of the Oregon and California Act of 1937,¹² the O and C

¹¹ About 100,000 acres of this was Coos Bay Wagon Road Reconveyed lands. The story of these lands is too long to cover here; but they are administered in a manner identical to the Oregon and California Revested Lands.

¹² 50 U. S. Statutes 874 (1937).

forest lands have been managed on a sustained yield basis with at first half and later three-fourths of the revenues from the sale of timber going to the eighteen counties in which the grant lands are located. In addition, the Department of the Interior has been instructed by law to offer management facilities to the owners of the intermingled private timber lands so that they also may be subject to the same forestry practices that prevail on the O and C lands. This legislation encountered little opposition either in Congress or in Oregon and has since been subject to only minor amendments.

This change in policy was due to three factors, two of which have already been discussed. One was the lack of success which attended the attempt to dispose of the revested lands for agricultural purposes, another was the desirability of placing the distribution of receipts on a basis more in keeping with the amount of revenues actually received, and the third was the growing public consciousness in Oregon of the necessity of properly managing the forest resources of the state.

This third factor was a result of increasing concern over the rapidity at which the volume of standing timber was dwindling. One politically influential group that played an important part in bringing about the change in public opinion was the operators of the larger lumber mills who were becoming apprehensive about the possibility of not having an adequate supply of logs in the foreseeable future. Other business interests in the state also became concerned about their own future should the area's basic industry contract until it became primarily dependent upon timber cut from the national forests.

Sustained Yield. The 1937 legislation provided for sustained yield of the forest lands in the grant to provide a permanent timber supply, protect watersheds, regu-

late stream flow, provide recreational facilities, and contribute to the economic stability of local communities. The adoption of this policy involved a number of steps. In the first place, the lands had to be classified on a realistic basis as to their best use. The result was that 19,000 acres are carried as scenic or recreational lands; 125,000 acres as non-commercial forests, considerable portions of which are suitable for grazing; and 2,446,000 acres as true forest lands. The next step was to take an inventory of the forest lands so that not only was the total volume of merchantable timber known, but also the quantity by age classes of second growth timber. This information made possible an approximation of the annual potential producing capacity of second growth and the amount of second growth that may be expected to reach merchantable size each year. Without going into the details of the mechanics by which the estimate was made, an annual allowable cut figure was computed on the basis of twelve sustained yield units (subdivisions) which will insure that when the present supply of merchantable timber is all cut, a new crop of second growth timber of equal or greater volume will be available for cutting. This annual allowable cut is approximately 660 million board feet, although a maximum of 900 million board feet is eventually possible under proper management.

As far as the O and C lands themselves are concerned, forest practices looking toward a perpetual yield are being followed insofar as this is possible with limited personnel and inadequate access roads. The serious problem and challenge lies in inducing good management upon the owners of the intermingled private lands. The Forest Service is faced with the relatively simple task of enforcing the terms of its agreements with the firms who have successfully bid for the

National Forest timber. The Bureau of Land Management (the successor of the General Land Office), on the the other hand, has this duty for the O and C lands, but it also has a moral responsibility to greatly enlarge the number of acres of land on which the principle of sustained yield may be adopted by obtaining the formal cooperation of the owners of the intermingled private lands. The Bureau of Land Management has been unsuccessful in this regard because the public has not accepted the monopoly aspects of the plans so far developed.

Specifically, the present legislation authorizes the Secretary of the Interior "in his discretion, to make cooperative agreements with . . . private forest owners or operators for the coordinated administration, with respect to time, rate, method of cutting, and sustained yield, of forest units comprising parts of revested or reconveyed lands, together with lands in private ownership, or under the administration of other public agencies, when by such agreements he may be aided in accomplishing the purposes hereinbefore mentioned."¹³ The purposes, in addition to establishing a perpetually producing forest, include "contributing to the economic stability of the local communities."¹⁴ It would seem that some legal responsibility is placed upon the Secretary to encourage these cooperative agreements, a step which, if successful, would eliminate the checkerboard pattern, as far as sustained yield is concerned.

One proposed agreement for pooling 16,000 acres of O and C timber and 18,000 acres of private timber in a single management unit by a one-hundred year contract was considered in 1948. The private cooperator was to be guaranteed exclusive cutting rights on all the timber committed in the agreement and the

¹³ Section 2, *ibid.*

¹⁴ Section 1, *ibid.*

price of the O and C timber which he purchased was to be determined by appraisal. Public hearings developed opposition to the plan, the principal basic objection being the monopoly rights to be given to the cooperator which would crowd out private loggers who might otherwise bid on O and C timber and also eliminate all O and C timber in the area covered by the contract as a source of logs for any mill other than the one owned by the cooperator. A telling argument presented by the opponents was that the price of government timber sold to the cooperator would not be the result of bids. Apparently because of the strong objection by small loggers, mill owners, and others who feared the proposal would affect them adversely, the Secretary of the Interior did not close the proposed contract. It does not appear that substantial progress is now being made on any cooperative unit.

A somewhat related topic is whether sales of O and C timber should be made to large established operators or smaller firms. This is a problem that has faced both the Forest Service and the Bureau of Land Management. There is reason to believe that the large operators have been favored in the past. At the present time, however, the Bureau of Land Management makes existing access roads available to any purchaser of O and C timber. This was at first accomplished by withholding from sale tracts that could be reached only by a privately-owned road unless the owner would agree to make his road available to the purchaser of the timber upon the payment of a fair price for the use of the road to its owner. As new private roads are built, the government refuses to grant rights-of-way on its land unless the private owner permits the use of the road to haul out timber on

government land. It is simply a reciprocal arrangement.¹⁴

It should be pointed out that informal cooperation between the Bureau of Land Management and the owners of intermingled private lands can result in sound sustained yield management for both, and there are many instances of this occurring. Moreover, public forestry can have profound influence on private forestry practices through demonstration: the O and C checkerboard undoubtedly performs a very significant social function in this way and one which could not be realized to the same degree if the lands were consolidated.

County Payments. The Act also set forth a new formula for dividing the income from the lands. This provided for 50 percent of the total income being distributed to the counties in lieu of taxes, 25 percent to be available for administrative costs if and to the extent appropriated by Congress, and 25 percent to the Treasury to liquidate the \$10 million advances made to the O and C fund. When the \$10 million was repaid, the final 25 percent was to go to the counties. During the years since 1937, the price of timber has risen phenomenally. Immediately preceding World War II, O and C stumpage averaged about \$2.00 per thousand board feet. In the first half of fiscal 1952, it averaged \$27.40 per thousand board feet.¹⁵ The annual income received rose from \$374,000 in the fiscal year 1938 to \$10,503,000 in the fiscal year 1952. The result has been that the financial problem has been reversed: It is now no longer how enough money can be obtained to make payments in lieu of taxes, but rather how this substantial income is to be divided be-

¹⁴ This paragraph is based on D. L. Goldy, "Big versus Little Lumber Operators in the Pacific Northwest," *The Annals of the American Academy of Political and Social Sciences*, May 1952, pp. 93-104.

¹⁵ *Revision of Title II, O and C Act of 1937* (Washington: Bureau of Land Management, January, 1952), p. 9.

tween the federal government and the counties, with the government of the state of Oregon also looking longingly at this new source of wealth.

In early 1951 receipts from the O and C lands were such that the debt due the Treasury was paid off. The counties are now entitled to receive 75 percent of the receipts and payments were made at this rate late in 1952.

On April 20, 1951, which was about the time the federal government was repaid the last of its advances to the Oregon and California Land Grant Fund, the Appropriation Committee of the House of Representatives rejected a budgetary estimate for access roads into O and C timber lands. The reason was that:

"The committee was willing to provide funds for the initiation of an access road program in prior years on the assumption that the legislation relating to the distribution of receipts from the sale of timber would be modified. The existing law provides for an inordinate proportion of the receipts from such timber sales to be distributed to the counties of Oregon. The Federal Government cannot be expected to invest in capital improvements, even for such valuable natural resources, when the financial proceeds of harvesting these resources accrue in excessive proportion to a small number of counties rather than to the Federal Treasury. The committee will be unwilling to provide for capital expenditures of this nature unless and until substantial adjustments are made regarding the distribution of receipts of timber sales from the O and C and Coos Bay grant lands."¹⁷

The Congressional attitude is affected to a considerable extent by the fact that the counties receive but 25 percent of the receipts of the sales of national forest timber and 5 percent of the sales of timber from the public domain. "There are areas in southern Oregon where three trees found now growing within a space no larger than this room would, when

cut, return to the local government 75 percent, 25 percent, and 5 percent, respectively, depending upon whether they grew upon O and C, national forest or public domain land."¹⁸ It will be recalled that all administration, capital improvements such as access roads, and all other expenses come out of the 25 percent of the receipts allotted to the federal government, and that all such expenditures must be specifically appropriated.

Although adjustments in the legal provisions dealing with the distribution of the income received from O and C timber sales have been discussed, no changes have been made. As a result, the House Appropriations Committee in March 1952, turned down a Department of the Interior request for funds with which to build access roads. The reason given by the committee was: "The legislation relating to distribution of receipts from sale of timber made accessible by the proposed access roads has not been modified, and it is still the committee's opinion that the federal government should not invest further capital without deriving a larger share of the financial proceeds than is now provided for in the controlling legislation."¹⁹ However, a procedure by which the counties are, in effect, charged for the access roads was subsequently adopted. In the Interior Department Appropriation Act of 1953,²⁰ approved July 9, 1952, \$2,700,500 was appropriated for the acquisition of rights-of-way and the construction of access roads. However, this amount was stated to be a reimbursable charge against the Oregon and California land-grant fund so that 25 percent of the gross receipts must again go to the federal government for repayment of this advance (and a

¹⁷ Marion Clawson (Former Director, Bureau of Land Management), *O and C Forests and Oregon's Prosperity* (Mimeographed text of a talk made to Kiwanis Club, Eugene, Oregon, December 3, 1951), p. 10.

¹⁸ *Portland Oregonian*, March 23, 1952, p. 3.

²⁰ 66 U. S. Statutes 597 (P. L. 470, 1952).

¹⁷ *Ibid.*, p. 3.

second 25 percent goes to the federal government out of which administrative expenditures may be appropriated). These new roads, however, will enable a heavier cut of timber to be made so that total receipts will be larger.

The State as a Potential Beneficiary. The state government of Oregon has recently been looking covetously at the now very valuable income producer in its boundaries. The 1951 session of the Oregon legislature memorialized Congress to turn over the grant lands to the state. No legal claim upon the property was made, the idea apparently being that the state could do a better job of managing it than the federal government.²¹ The state's leading newspaper, the *Portland Oregonian*, under an editorial headed "A Billion Dollar Question: Who Should Profit by O and C?" concluded: "The State of Oregon should be declared a full partner in this very profitable business."²² No supporting sentiments from Washington, D. C., have been heard.

Controverted Lands

There are about 600,000 acres of O and C lands within the boundaries of the national forests that are unquestionably under the jurisdiction of the Bureau of Land Management. These lands lie in an alternate section pattern with national forest or private land, but they are as clearly free of Forest Service control as is privately-owned land within the national forest boundaries. There is another 463,000 acres, referred to as the "controverted lands," which also lie in an alternate section arrangement and are claimed by the Forest Service as national forest and the Bureau of Land Management as O and C lands. In 1948, when timber prices were lower than at the present time, it was estimated that

the timber on these 463,000 acres was worth \$30 million.²³ It was not until 1939 that the two agencies learned they were both claiming the same land; in that year two field men of the Oregon and California Revested Land Administration (the predecessor of the Bureau of Land Management) found that the Forest Service had sold timber from land that their agency claimed.

The controverted lands were not patented by the railroad company because the indemnity strip had not been completely surveyed and the General Land Office would not grant patents to the company until the survey had been made. When certain portions of the public domain were converted into national forests, the Forest Service assumed these unpatented lands to have been included. The Oregon and California Revested Lands Administration and its successor, the Bureau of Land Management, maintain that the financial settlement with the railroad and all other court and legal actions show these lands to be integral parts of the O and C grant. The dispute remains unresolved.

Shortly after this controversy arose, the Forest Service and the Oregon and California Revested Lands Administration informally agreed that they would refrain from making sales of timber from the controverted lands until the problem was settled. However, demands for timber led to an agreement under which either agency could make urgent sales, the receipts being placed in a special fund.²⁴

²³ U. S. Bureau of Land Management, *Summary of Important Facts in the Jurisdictional Controversy between the Department of the Interior and the Department of Agriculture Concerning 463,000 Acres of Revested Oregon and California Railroad Grant Lands* (Portland, Oregon: Bureau of Land Management, February 3, 1948), p. 1 (Dittoed)

²⁴ This and the subsequent paragraph are based on a letter to the writer from Roscoe E. Bell, Regional Administrator Bureau of Land Management, Portland, Oregon, dated March 24, 1952.

²¹ *Senate Joint Memorial No. 6*, 1951 Oregon State Legislature.

²² *Portland Oregonian*, April 6, 1952, p. 32.

This informal arrangement was altered somewhat and formalized in September 1942, by an agreement between the Assistant Commissioner of the General Land Office and the Acting Chief of the Forest Service. This agreement, which is still in force, provides that: (1) the Forest Service will make all timber sales from the lands in controversy; (2) the money received from such sales will be placed in escrow for distribution when the controversy has been settled; (3) the agreement is not to be construed as a yielding of its claim by either party; and (4) the Bureau of Land Management can object to any sale proposed by the Forest Service if the disposal of the trees is contrary to its sustained yield program.

The "controverted" fund now totals nearly \$6 million. The controverted lands are found in but nine of the eighteen counties in which the Oregon and California lands are located. These counties have become quite restless and demand the distribution of the moneys at least on the Forest Service formula. Press reports indicate a settlement may be effected relatively soon.²⁸

Summary

The Oregon and California grant lands constitute a checkerboard of 2.6 million acres in Oregon. Most of these lands are covered by Douglas fir forest, little being useful for any other purpose. The grant is currently being administered by the Bureau of Land Management, Department of the Interior, and not by the Forest Service, Department of Agriculture, despite the much larger area in Oregon that is national forest and the fact that there is a considerable portion of the O and C land within the borders of the national forests.

The grant was originally 3.7 million acres (a figure which includes the "con-

troverted" lands) given to the Oregon and California Railroad Company in the 1860's to aid it in constructing a line between Portland and California. There were, however, strings attached to the gift: the land could be sold only to actual settlers, in amounts not exceeding 160 acres, and at prices not higher than \$2.50 per acre. By 1887 the railroad had sold 163,000 acres which about eliminated the agricultural land from the grant. From about that time until 1903 a considerable portion of the sales were made to persons wishing the timber on the land. Many were for more than quarter-sections and for prices higher than \$2.50 per acre. An additional 664,000 acres were sold between 1887 and 1903 when the company stopped the sale of the grant land.

The federal government brought suit to cancel the lease. In 1916 the Supreme Court ordered title to the remaining grant lands revested in the United States. The government continued under somewhat less rigid restrictions to dispose of the grant and it was reduced to approximately its present size. On the whole, little was sold to actual settlers and in 1937 the attempt was abandoned.

Since 1937 the lands have been managed as a perpetual forest. The checkerboard pattern presents great difficulties to efficient administration. Moreover, the timber on the lands is not being grown and sold as rapidly as a sustained yield program would permit because of inadequate access roads, disease, and fallen timber. The reason for the inadequacy of the necessary facilities to maximize the income from these properties is the lack of funds appropriated by Congress.

Congress has believed that the federal government should share in the sales receipts of timber to a greater extent than the present law provides. However, this

²⁸ Portland *Oregonian*, April 13, 1953.

difficulty has been overcome without altering the basic 1937 legislation.

A further complication is the fact that 463,000 acres are claimed by both the Department of the Interior (Bureau of Land Management) and the Department of Agriculture (Forest Service).

Thus the Oregon and California grant lands have, over the past ninety years, had a variety of managements. Moreover, the attitudes of these managements as to the proper policy to pursue with these lands has shifted. The correct use

of the lands is to produce timber, but historical events have prevented this from having been done in the most efficient manner. The checkerboard arrangement of the lands constitutes a problem in forest management, but it also offers a challenge and an opportunity to greatly extend the area over which good forestry practices prevail by formally or informally adding the intermingled privately-owned lands to the territory over which the Bureau of Land Management exerts influence in forest management decisions.

Land Reform and Politics in Czechoslovakia: 1945-1952

By KAREL HULICKA*

THE Communist Government of Czechoslovakia is proceeding against the peasantry of that country with aims similar to those which motivated the Soviet Government in the USSR in the past; it is both persuading and forcing farmers formerly independent to become agricultural workers on collective farms. One of the results of the application of this policy is the increased animosity among the people themselves and between the people and the communist system.

Democratic Period: From 1945 to the Communist Coup d'Etat, 1948

World War II was followed by nearly three years of a democratic system. In this period four political parties in the Czech provinces and an equal number of political parties in Slovakia formed the so-called National Front. This meant that all political parties joined the coalition government with no party opposition. However, and due chiefly to communist policy, the opposition *within* the National Front was gradually felt. All parties agreed that land reform was necessary because of the transfer of the German peasants from the Czechoslovak borderland and the confiscation of the estates of collaborators with the Germans.

In the early part of this period the Communist Party deceptively publicized its aims to be essentially those of the democratic parties, i.e.,—the breaking up of the large landholdings into family farms and the protection of small private farm holdings. Thus the long-term goal of collectivization of farms was for some time concealed. Only when the Communist Party took over in 1948 did that

policy become clear to everyone. In communist theory a large farmer exploits the work of agricultural workers and such exploitation is anti-Marxist. A small farm, on the other hand, is considered uneconomical and therefore, from the communist point of view, should be abolished and replaced by large co-operative farms. Thus it is that large farms, privately-owned, are firmly opposed in communist theory for political and ideological reasons, and at the same time small farms, privately-owned, are opposed for economic reasons. The real aim of the communists is to get political and economic power over all classes of people.

Land Reform. Agriculture is second only to industry as a vital branch of the Czechoslovak economy. Before World War II about one-third of the entire population was engaged in farming, but the number so employed is declining due mainly to demands for personnel in rapidly expanding industry.¹

The purpose of the land reform which took place after the liberation in 1945 was the elimination of the very small as well as very large agricultural enterprises. The result of this land reform was that the number of agricultural enterprises of from 12 to 100 acres increased by seven percent and at the same time the number of enterprises smaller than 12 acres decreased in the same proportion.² This policy was made easier since many of the transferred German peasants were small holders, and the peasants

1. In 1947 it was reported that only about 20 percent of the total number of inhabitants in Czech provinces and about 26 percent in Slovakia were engaged in agriculture. Cf., Jan Krblich, *Survey of Czechoslovak Agriculture* (Prague: Institute for International Collaboration in Agriculture and Forestry, 1947), p. 3.

2. Josef Goldmann, Josef Flek and Associates, *Planned Economy in Czechoslovakia* (Prague: Orbis, 1949), pp. 61-62.

*. University of California, Berkeley.

who resettled the Czechoslovak borders received holdings larger than the former German peasant farms. The confiscated estates inside the country also contributed to enlargement of the contiguous small holdings.

The following table shows agricultural holdings in order of size in the Czech provinces in 1930 and on April 1, 1948 (before the second land reform).³

TABLE I—COMPARISON BY NUMBER AND SIZE OF HOLDINGS:
1930 AND 1948
(By 1,000's)

ACRES	1930		1948	
	Number	Percent	Number	Percent
1.25 to 12.5.	577.1	66.2	444.4	60.3
12.5 to 50.....	240.2	27.7	257.6	34.8
50 to 125.....	45.9	5.2	29.3	4.0
over 125.....	8.1	0.9	7.0	0.9
Total.....	1,075.-	100.0	944.0	100.0

The land was distributed to the landless, the small and middle peasants. The distribution was made (according to official communist sources) as follows:

In the interior 65,909 families received 99,535 hectares (1 hectare—2,471 acres) of agricultural land, on the average one and one-half hectares for each family. In the border regions 157,515 families received 937,720 hectares of land; that is, on the average about six hectares to each. This total, however, includes the small recipients, non-agriculturists, who received on the average one-half to two hectares. Peasants in the border regions received on the average eight to thirteen hectares, depending on the quality of the soil.

In Slovakia 82,138 families acquired ownership of 170,899 hectares of agricultural land.

Altogether in Czechoslovakia 305,148 families received 1,217,154 hectares of confiscated land, that is, on average about four hectares to each family.⁴

The state farms and public corporations, e.g., scientific institutions, municipi-

palities, etc., received 180,942 hectares of agricultural land in Bohemia and Moravia and 42,502 hectares of agricultural land in Slovakia; about 1,200,000 hectares of forest land were transferred to state holdings and only small woods not connected with the main forests were left for communities or forest cooperatives set up by the peasants.⁵

The Communist Party has posed as the protector of the peasants. It did not advocate taking over the land, but on the contrary, proposed taking land from only the large farmers and estate owners and to distribute it among many of the small peasants. Few of these knew Marxian theory. The communist leaders in the period from 1945 until the coup d'état of February 1948 created the impression that the Czechoslovak Communist Party was against any violence; that the goals of socialism (they pretended to be merely a socialistic party) would be reached by democratic means held dear by the Czechoslovak people. To confuse the people even more, the internationalism of the Party was placed in abeyance and the Party pretended to be highly patriotic, anti-German, and pro-Slav. Thus even people who knew communist theories and the pre-war Communist Party could now hardly recognize the post-war Communist Party. At the celebration of May 1, 1946 (Labor Day) the girls in the communist parade wore Czechoslovak national costumes and there were as many national flags as there were communist flags. This was the first time in the existence of the Communist Party that this had taken place. The national flag or costumes were always ignored by the communists in the past. If this reversal of policy, a matter of expediency, misled the intelligentsia and, to a certain extent, even the leaders of

3. *Ibid.*, p. 62.

4. Editorial team of "Rudé právo," *Czechoslovakia on the Road to Socialism* (Prague: Orbis, 1949), p. 1.30

5. *Loc. cit.*

the democratic political parties who believed that co-operation with this new kind of Communist Party was possible, it is little wonder that it deceived the peasants. The belief in the possibility of the usefulness of this new nationalistic Communist Party was bolstered by developments which took place during the war, and it was generally believed that the policy even of the USSR would be changed after the experience with the German invasion of the USSR. The communists everywhere were disappointed in their hope that the German proletariat would oppose Hitler and support the USSR. On the contrary, the German workers fought against the "socialist mother-land." The dissolution of the Cominform during the war contributed to the opinion that nationalism was supplanting internationalism in Soviet foreign policy. Accordingly, the Czechoslovak communists became "nationalistic." These facts, among many others, contributed to the success of the Communist Party in the election in May of 1946 from which the Communist Party emerged as the strongest single party. Many votes which in prewar times were cast for the Agrarian Party now went to the communists, especially in the border regions because the land acquired from the transferred Germans was promised by the communist-led ministry of agriculture to the new settlers as legal property.⁶

One of the first acts of the Ministry of Agriculture in 1946 was to set up a new agricultural price policy. It differentiated between groups in the villages and discriminated against farmers with larger holdings, in the following way: (1) a

gradation in prices of agricultural products in three categories was introduced, based on the amount of land held by each group—the more land held the lower the price the government as a direct buyer paid for the products (the three price groups were, up to twenty hectares, up to fifty hectares, and over fifty hectares),⁷ (2) prices of animal products were gradually raised in proportion to the prices of plant products. This served two main functions: to increase the animal production and to help the small and middle peasants whose main source of income is animal production whereas income from plant products contributes mainly to the farmers with larger holdings.

The result of this policy was that peasants with small and middle-sized holdings received from the government more for their products than big farmers and estate owners. Another advantage the small and middle peasants received was in the reduction of land rent, since previously about 30% of the land of small and middle peasants was leased either from owners residing in cities or large landholders. The Minister of Agriculture, communist Julius Duris, not only aided the small and middle peasants in improving their economic position but also created and encouraged animosity between the small and large farmers through the process of price groups differentiation. Thus the Communist Party appeared as the protector of the small peasants. The communist speculation as to the tactical advisability of this policy proved to be correct, as was shown by the election results of 1946. Through the organization of working brigades of volunteer urban workers during harvest, some of whom worked in the fields while others repaired farmers' tools and machines free of charge, the peasants and factory workers were brought to-

6. In the Czech provinces out of the nineteen constituencies the highest percentage of the communist vote was in the following four: Ústí nad Labem (border region) 56.49%, Kladno (mining district inside Bohemia) 53.63%, Karlovy Vary (border region) 52.25% and Liberec (border region) 48.32%. The total percentage of the communist vote in the whole Republic was 31.05%. (*Statistical Bulletin of Czechoslovakia*, The State Statistical Office in Prague, Year I, No. 2-3).

7. *Czechoslovakia on the Road to Socialism*, op. cit., p. 131.

gether. Among the latter, many Communist Party members came to spread communist ideology. The communist authors stated:

"The brigades really changed the ideas of peasants about workers, ideas pounded into them by the agrarian capitalists. The friendly alliance of workers and peasants was deepened, brigades let the peasants know how many common interests they had with the working class in the struggle against exploitation."⁸

The democratic parties opposed the actions of the communist-dominated Ministry of Agriculture, just as they opposed further nationalization in industry.

In the spring of 1947 the Minister of Agriculture proposed the parcelling out of land of all large farms and real estate in excess of fifty hectares and the establishment of old age and sickness insurance for peasants. He further proposed a new law on a unified agricultural tax which simplifies the tax system; ninety percent of the peasants were to be relieved of payment. The government was to take over security in agricultural credit for the peasants and lower the interest rate to half of the previous rate. A special fund was to be set up for peasants to draw upon when, through misfortune, they could not make their annual payments.⁹ Due to a catastrophic drought and poor harvest in 1947, the Minister of Agriculture also proposed "to assure the peasants extra premiums on the purchase price of agricultural products, extraordinary aid of 1.2 billion crowns paid out to small peasants, and fodder (with a price subsidy) imported from abroad."¹⁰ The Communist Party proposed that this price subsidy should be financed by a tax upon millionaires. The other parties rejected the proposal as demagogic.

The Government Crisis. During the governmental crisis (February 1948) the peasantry received information only from the communist point of view for broadcasting was in the hands of the communist Minister of Information. The newspapers available were communist, since anti-communist newspapers did not appear during the fateful days of the governmental crisis of February as a result of an order from the communist-directed labor unions to the printers directing them not to work for "reactionary" newspapers. The crisis was presented to the peasants as an attempt of non-communist parties for a "reactionary putsch" aiming to destroy all advantages the small and middle peasants won after 1945. Due to the opposition of the democratic parties to further nationalization of industry, the industrial workers were presented with an identical view that "reaction" was slowing down nationalization and that its victory would mean the worsening of working conditions for labor. Through the cooperation of left-wing Social Democrats and by taking advantage of the rather ill-prepared plan of the democratic leaders, who resigned from the government without being completely certain of either the position of the Social Democratic Party or of non-party foreign minister Jan Masaryk, the communists were able to take over the government. This enabled them to introduce their agricultural policy with no further opposition from political parties, though against passive resistance from individual farmers.

Communist Period: February 1948 to Date

Class Differentiation in the Village. After their victory in 1948 the communists intensified the campaign in the villages for "class-based schedules of deliveries, according to the principle 'make it easier for the small peasant, restrict the big, i.e.,

⁸ *Czechoslovakia on the Road to Socialism, op.cit.*, p. 131.

⁹ *Ibid.*, p. 134.

¹⁰ *Ibid.*, p. 135.

according to the actual productive ability and according to social stratification of the village'.¹¹ The Communist Party successfully introduced a class differentiation in the villages, thereby generating hatreds hardly known before. These hatreds stemmed from the fact that the small and medium peasants were personally in charge of the functioning of the class-based schedules which were planned specifically to restrict the rich peasants. Due to the second land reform, introduced by the new communist-dominated government, there are no more large landholders or estate owners but only farmers who own up to fifty hectares of land. Yet the government and Communist Party members now consider these to be the "village rich" or "village capitalists." The steps the government is taking against these "large" farmers are, in addition to a series of political measures, certain tax measures, high national insurance rates, high delivery quotas, high payments for the use of the machines of the State Machine Stations, complete restriction of the distribution of agricultural machines such as tractors to the "village rich."¹² If one of the "village rich" cannot deliver the high quotas he is expected to deliver, his property is confiscated and taken over by a co-operative. Thus Mr. Gottwald's declaration of March 17, 1948 that constitutionally safeguarded ownership of the land would be regarded as inviolable is, in practice, a fiction, as is the constitutional guarantee of individual ownership up to fifty hectares of land.

Another discrimination against bigger peasants was introduced in January 1949 in the form of priority distributions. Workers and peasants who owned less than fifteen hectares and who have fulfilled their delivery quotas (a govern-

mentally-prescribed quantity of agricultural products to be delivered to the government) have priority for such necessities as food, textiles and footwear. This priority is on a "rationed" basis with relatively low prices. The others can buy textiles and footwear only in the free market—and for much higher prices.

A system of agreements in agricultural production was established in February 1949, according to which peasants pledged through individual contracts to produce and deliver a specified amount of agricultural products; the government was to insure to the peasants sufficient quantities of fertilizers and other products required by agriculture as well as the marketing of the amount of agricultural produce agreed upon. In contrast to quotas and obligatory deliveries, the government defined this as the "right" of peasants to sell their goods.

Steps toward Collectivization of Agriculture.

After the communist victory the millionaires' tax became law, the second land reform took place, and although agriculture is still predominantly left to private ownership, steps are being taken to introduce collectivization of land. During the second land reform, a total of 127,025 hectares of agricultural land was distributed to 100,310 families. A total of 405,882 families received 1,344,179 hectares of land, that is—about 3.5 hectares of land per family.¹³

"State and publicly-owned farms received from this revision of the land reform more than 100,000 hectares of agricultural land and state forests, more than 700,000 hectares of forest land. Altogether, state and publicly-owned farms received about 324,000 hectares of agricultural land and state forests nearly 2,000,000 hectares of forest land . . . The liquidation of large estates was accomplished."¹⁴

11. *Czechoslovakia on the Road to Socialism, op. cit.*, pp. 138-139.

12. *Czechoslovakia on the Road to Socialism, op. cit.*, p. 139.

13. *Czechoslovakia on the Road to Socialism, op. cit.*, p. 137.

14. *Czechoslovakia on the Road to Socialism, op. cit.*, p. 137-138. Estates limited to 50 hectares.

According to the Five-Year Plan agricultural production is to be increased by 37% above the levels for 1948. There will be a substantial shift in agriculture from crop cultivation to animal husbandry. Although crop production is to be increased by 11%, this will not exceed the prewar level. However, animal husbandry with a planned increase of 86% will considerably surpass the prewar level. This change may necessitate the importation of cereals. Thus, the traditional structure of agricultural production will be fundamentally changed.

The mechanization of agriculture is making rapid progress. The number of tractors used in agriculture increased from the prewar 6,000 to 11,800 in 1946 and to 17,000 in 1947: 45,000 are to be in operation at the end of the Five-Year Plan, or one tractor per 155 hectares (380 acres) of arable land.¹⁵ The Plan aims to achieve complete mechanization of agriculture. Machinery is to be sold according to the following schedule of preferences: (1) State Machinery Stations (similar to MTS in the USSR). (2) Co-operative Societies (similar to Kolkhoz). (3) State Farms (similar to Sovkhoz). The official explanation for this distribution plan is that it is "in order to insure the most rational use of the machinery over large areas." This sounds quite logical. It represents, however, something else. While cooperatives and state farms are using the most modern machines, the larger private farmers have been forced by law to sell their machinery to the State Machinery Stations or to have it confiscated and have not been able to buy it again. The small peasants outside the co-operatives who are in no position to buy machinery, due to the schedule preferences mentioned above as well as due to their lack

of money, may soon realize that they can hardly compete with the State Farms and co-operatives. Their productivity will be lower and, in a society where the idea of "to everyone, according to his output" prevails they might soon "voluntarily" join the co-operatives.

In the move against private farming the labor union leaders stated that the value of the product in industry per employee per year represents roughly 240,000 crowns, while in agriculture it represents only about 40,000 crowns. In other words, the agricultural worker on private farms produces only one-sixth as much for the society as the industrial worker. They continue:

"In the socialistic sector, on state farms the productivity of work is fifty percent higher than in a private sector. It is estimated that the value of production on state farms represents about sixty thousand crowns for a worker The reason is that the work in agriculture is being conducted in the same way that it was fifty or one hundred years ago and because there are 33,000 plots in Czechoslovakia."¹⁶

The fifty percent higher productivity on the state farms is only an estimate and does not take into consideration the fact that an independent farmer is always willing to work longer hours than a laborer. On the other hand, a highly mechanized co-operative farm, if properly administered, may achieve a higher productivity.

The communist agricultural policy clearly has the following aims: (1) *from the economic point of view*, to mechanize agriculture, to unify fields, and to reduce the number of persons employed in agriculture in order to secure workers for expanding industry. (2) *from the predominantly political point of view*, to create state farms and co-operatives and, in the end, with the exception of small garden

15. Antonín Volavka, *One Hundred Years of Agricultural Policy* (Prague: Ministry of Agriculture, 1948), p. 87.

16. Vladimír Pachman, *Obdóráři na pomoc venkovu* (Praha: Svoboda, 1948 (?) pp. 13-14.

plots, to abolish private farms in order to obtain economic and political control over the peasantry. Step after step is being taken to achieve this end.

There were 33,000,000 separate fields averaging 0.24 hectares in Czechoslovakia's 1,400,000 farms and estates, totalling 7.5 million hectares of all agricultural land. The communists insist that it is not feasible in the mechanization and planning of agriculture to have the land divided into so many small pieces. The peasants are asked to join co-operatives and to cultivate the land collectively. President Gottwald declared: "Even in our country, the way of a peasant and village to socialism leads through co-operatives."¹⁷ Beginning in March 1949 the Unified Agricultural Co-operatives began to be established voluntarily by the combination of existing co-operatives and by the formation of additional new ones. The government explained to the peasants that the co-operatives:

"will help them to improve agricultural production, raise the productivity of agricultural labor and do away with the backwardness of the village. Unified Agricultural Co-operatives enable peasants to raise production of agricultural labor by mechanization, using selective seeds and plants, common rotation of crops, lowering the overhead charges of machines, cultivation of the land (irrigation, windbreaks). It makes possible the raising of profits in animal production by the introduction of pedigreed herds, artificial insemination, setting up co-operatives, poultry and calf farms, etc."¹⁸

Every farmer, small or large, could become a member of the co-operatives. Workers, tractor drivers, working women, and craftsmen who aid the fulfillment of the task of the co-operative may also become members. Interesting observations may be made, however, concern-

ing the membership of big farmers in the co-operatives. According to the law the large farmers who were members of the co-operatives could not become leaders in the co-operatives, thus showing the distrust of the government toward large farmers which was openly stated:

"Village rich are allowed in the co-operatives as members in order that they might be under constant control surveillance. District co-operative committees can intervene in those co-operatives where, in spite of all precautions, the village rich are still making their influence felt."¹⁹

The original plan of the Communist Party was to have the "village rich" within the co-operatives in order to have them under observation of the other members of the co-operatives. This idea, however, backfired to such an extent that the plan had to be fundamentally altered.

The larger farmers, who quite often were specialists in agriculture, had in many cases a strong anti-communist influence upon the membership of a co-operative. In spring of 1951 the magazine for the functionaries of the Communist Party, *Funkcionár*, emphasized that the village rich "tries to enter the Unified Agricultural Co-operatives in order to be able to subvert them from within."²⁰ As in so many other cases the experience of the USSR is being given as an example:

From the experience of the Soviet Union we know that a kulak in a co-operative is even more dangerous than outside of the co-operative, that he would never give up his struggle against the Unified Co-operatives.²¹

The communist members of co-operatives are now persuading all other members of co-operatives to exclude the "village rich" from the co-operative. The "village rich" especially who joined the Communist Party are being closely watched to see whether they did not

17. Klement Gottwald, *Děle a smejeji vpred k vybudování socialismu v naší vlasti* (Praha: Svoboda, 1950), p. 30.

18. *Czechoslovakia on the Road to Socialism*, op. cit., p. 143.

19. *Czechoslovakia on the Road to Socialism*, op. cit., p. 144.

20. *Funkcionár*, No. 6, VI., April 6, 1951, p. 356.

21. *Funkcionár*, op. cit., p. 356.

join the party in order to fight communism. The "village rich" were declared by the Communist Party to be the chief enemies of the small farmers and saboteurs of the co-operatives. The expulsion of the large farmers became "a prerequisite to good work in the co-operative."²² Thus the larger farmers are now to be definitely excluded from joining the co-operatives.

After the exclusion from the Communist Party of high-ranking communist functionaries like Clementis, Sling, and Svermova the attacks against the "village rich" increased. The charges made against these members were that "similar to their Titoist teachers they agreed that the Unified Agricultural Co-operatives may be formed so as to include the village rich, the so-called "good farmers."²³

Organization of Work. The important task of the co-operative is to determine how to organize work, how to pay for the work done, and how to divide the profit. The former Secretary-General of the the Communist Party, Slnsky, recommended that the co-operatives increase the working efficiency through properly conducted accounting and classification of work similar to that in industry.²⁴ The rewards for work should be distributed according to its difficulty and quality. The Communist Party, and therefore also the government, fundamentally opposes equality in income. Income according to to length of time, that is hourly wages, which is the practice in many co-operatives, is to be abolished. The communists argue that hourly wages would enable the lazy workers to earn the same income as the most diligent ones. Therefore, the reward has to be made according to the norms and work units.²⁵ Whenever the worker surpasses the norm of planned

output, he is supposed to receive a premium. Thus all means are being used to influence the co-operatives to abolish the "unjust reward according to hours."²⁶

The co-operative is supposed to make a plan in advance for the whole year and organize group work in both crop and animal production. The groups should be as nearly as possible equal as to number of workers, age, sex and ability. The worker groups are selected by the managing committee and are approved by the general meeting of the members of the co-operative. Each group has a leader who is supposed to be the most able and most experienced, both in work and political leadership. He must also be a member of a co-operative. The distribution and assignment of the individual groups has to be made in such a way that each group would have to cultivate for the full crop approximately the same-sized piece of land of the same fertility. The fields have to be approximately equally distant and have the same chance to obtain the same number of working units. The only difference in obtaining a higher group income would be through better work and higher productivity.

The communists strongly emphasize competition between the groups. Since each group should try to win the competition and receive higher income, the members of the group hardly tolerate a slow worker. In addition, the leader of the group assigns the work to individual members of his group, and he who is not able to finish his norm receives a smaller reward. Under such a system no equality of income is possible without equal work.

Norms. Perhaps the most difficult problem is to determine the norms and to adjust them. It is difficult to increase industrial norms due to the opposition

22. *Funkcionár*, No. 2, VII., January 29, 1952, p. 55.

23. *Funkcionár*, No. 13, VI., July 15, 1951, p. 768.

24. Cf., *Děle a směleji vpřed k vybudování socialismu v naší vlasti*, op. cit., p. 58.

25. *Funkcionár*, No. 23-24, V., December 15, 1950, p. 1321.

26. *Funkcionár*, No. 4, VII., February 28, 1952, p. 116.

of the workers. In agriculture this task is far more difficult, since the farmers were not used to piece work. The previous independence of individual farmers is also an obstacle to increased norms.

The agricultural work has been divided into seven classes according to the difficulty, importance, and degree of qualifications for the fulfillment of the norm. The first class for the easiest and simplest work, such as sweeping the yard, represents one half of a work unit, while the seventh class for the most complicated and most difficult work requiring the highest qualification represents two work units.

- I. includes the easiest work inside the buildings, such as stitching of bags; a norm in this case is 20 stitched bags and it represents one-half of a work unit.
- II. is work such as herding of cattle, or preparing straw-bands used in hand-binding of sheaves; a norm is 300 straw-bands, which represents three-quarters of a work unit.
- III. is work such as planting of potatoes, harvesting of potatoes, shocking grain; a norm is to shock 0.80 hectares. This norm equals one work unit.
- IV. is work with a team of horses and other more difficult work such as manure spreading, ploughing with a team of horses, sowing crops, feeding of cattle; a norm is three hectares of sowing, which is one-and-one-quarter of a work unit.
- V. is e.g., team work with machinery and difficult hand work such as driving a grain binder or cutting with a scythe; 1000 meters of cutting with a scythe equals one and a half work units.
- VI. is work with a tractor and especially responsible and qualified work such as driving a 30 horsepower tractor

with a three-bottom plough. A norm of 2.5 hectares is one and three quarters work units.

- VII. especially difficult work and specialized work of journeymen. A norm equals two work units.²⁷

Rewards. The total of all work units performed for the calendar year by all members of the co-operative is the basis for calculation of the members' shares from the collective economy.²⁸ Hence, the value of a work unit is, of course, variable. It is expressed partly in money and partly in goods.

"E.g., in the co-operative in Hermanice a member of the co-operative receives for one work unit Kcs 89.70 (less than two dollars) and 1.5 kg of rye, 1 kg of wheat, 7 kg of potatoes, 0.25 kg of barley, 0.60 kg of oats, 2.50 kg of hay, the same quantity of straw and 10 kg of green fodder."²⁹

The government prefers, however, the rewards in money for the members of co-operatives. The exact value of a work unit can be known only at the end of the year when the balance in the co-operative is calculated. Due to this fact the co-operatives pay 50% of the expected value of a work unit to the members in advance, weekly or monthly, and the rest at the end of the year. The government recommended this system of payment since, similar to the Soviet counterpart (the kolkhozniki with their kitchen gardens) a Czechoslovak farmer, a member of the co-operative, may have his small personal dwelling with one cow, other smaller animals and one-half of a hectare of fields. He has thus a double income. Those who have no such dwelling as, for example, the former agricultural workers and now members of co-operatives, are being paid up to 70% of a work unit during the year.³⁰

27. Cf., *Funkcionár*, No. 23-24, V., December 15, 1950, p. 1321.

28. *Funkcionár*, No. 4, VI., March 5, 1951, p. 242.

29. Cf., *loc. cit.*

30. Cf., *loc. cit.*

The government urgently asks the co-operatives to create an "indivisible and social" fund. Each year ten to twenty percent of the gross income has to be allotted to this fund which must be used for the extension of the co-operative economy—i.e., the purchasing of cattle, agricultural machinery, construction, and other investment.³¹

Working Morale. In the work of the Unified Agricultural Co-operatives one of the major problems remains—the working morale. The co-operatives are independent economic units and the work unit expressed in money depends on their economic results. Just as in the USSR, there are differences between co-operatives. The income of co-operatives depends on the fertility of the soil, the quantity and quality of work, and the administration of work and rewards. The money for the work unit is not a wage for members of a co-operative. As the Government explains, "they remain owners and co-owners of the means of production, they are co-landlords of the co-operative and share its economic results."³² However, the goal for the future is to reward the members of the co-operatives exclusively on the basis of work performed without reference to the property they brought to the co-operative. This would put them in the same position as the industrial worker in nationalized factories who is a "co-owner" of the means of production.

Every kind of work, both manual and mental, if outstandingly performed is rewarded by honors often combined with material advantages. The notion that mental work would be superior to any kind of physical work was replaced by the concept of equal importance. A good worker can achieve the highest honors just as can a scientist, a musician or an artist. The communist technique of

"equalizing" the types of labor, of injecting new dignity into the previously looked-down-upon manual employment has brought some degree of gratitude and confidence in the new regime for this particular reform from previously non-vocal social groups. This new arrangement of the labor corps has placed emphasis upon the quality of the man's work, rather than the more static concept of his "position" in the economic structure. For example, an outstanding carpenter would be considered to be of more value to the society than a mediocre physician.

A private farmer worked hard on his own field, since he knew that the result of his work belonged to him only. He who was a poor farmer eventually lost his property. Under a co-operative system he who is less efficient might be practically supported through the work of the others if it were not for the system of piece work which is preferred by the government. This calls for higher productivity of labor, and it effectively reveals and decreases the reward of all those who are lazy and idle. On the other hand, the government wants to stress and make public the results of the best workers. As in the Soviet example, in every co-operative—in the same way as in factories—rewards and defects are posted on the farm notice boards.

The government tries to replace the drive for individual success—the motive of profit—by teamwork spirit similar to that prevailing in sports. On the other hand, competition among individuals as well as among teams is not abolished but highly encouraged. Planning and competition are fundamental driving forces of collective work. There is little doubt that this hitherto unknown system of work has many difficulties even if one does not consider the question of property.

31. *Funkcionár*, No. 3., VI, February 9, 1951, p.16.8

32. *Funkcionár*, No. 4, VI., March 5, 1951, p. 242.

The Communist Party members, according to standard directives, are creating strong propaganda not only for the governmental system but for the system of collective work as well. Thousands of political meetings are being held in the villages. The directives read as follows:

"The fundamental organizations of the Communist Party create agitation groups from the most mature communists in such a way that in each working group and squad of a Unified Agricultural Co-operative, a State Farm and a tractor brigade there would be at least one agitator The task of an agitator is to explain to the communists and to those who do not belong to any political party in social gatherings, during work in the fields and at every suitable occasion questions of principal importance for the Unified Agricultural Co-operative, State Motor Station, State Farm in connection with the internal and international situation. The agitators are to struggle against wrong ideas and moods, to educate the members of co-operatives, tractor drivers and the others in such a way that each of them would feel themselves to be responsible land-owners and would put examples of bad morale in the pillory."³³

Types of Agricultural Co-operatives and Membership Therein. There are the following types of agricultural co-operatives: (1) Co-operatives using collectively-owned seeds, retaining the numerous paths which serve as dividing boundaries between fields, collective organizations of the work in the field, collective using of co-operative and private machinery and teams of horses. The crops from their fields belong to members individually. (2) Co-operatives using collective seeds but enlarging fields by abolishing boundaries between them. Collective work and harvest is then divided among the members by shares corresponding to the size of their fields. (3) Co-operatives with collective farming and rewards to a larger extent according to the labor performed, and to a lesser extent as rent

according to the size of the land given by the members to the co-operatives. (In 1950 there were 30 of these co-operatives.)

In all three types of these co-operatives, the land remains the private property of the members. Mr. Slansky emphasized that all these agricultural co-operatives are not yet a socialistic form of co-operative, for the profit is being distributed partly according to the work performed, partly according to the ownership of the land. There are, therefore, side by side, socialistic and private ownership elements.³⁴ Co-operatives with a fully socialistic character are only those with collective farming and stock raising, on which the profits would be distributed exclusively according to work performed.³⁵ This is the fourth type of co-operative Mr. Slansky recommended. Of the types mentioned above there were, up to the summer of 1952, 7,669 Unified Agricultural Co-operatives with more than 200,000 members.³⁶ As of October 30, 1952 there were 8,636 Unified Agricultural Co-operatives, of which 1,356 are of Type I, 2,370 of Type II, 4,499 of Type III and 411 of Type IV.³⁷ Their number is growing for several reasons, e.g., the Unified Agricultural Co-operatives can conclude contracts not only for the members of the co-operatives but also for non-members. To join the co-operative is voluntary, but all means are being utilized by the government to make it highly inconvenient for a farmer not to be a member. The large farmers, as mentioned previously, were forced to sell their tractors in order "not to be able through them to exploit the smaller peasants who were dependent on them."³⁸ Thus the larger farmer is left

34. Cf., *Dále a směleji vpřed k vybudování socialismu v naší vlasti*, op. cit., pp. 51-52.

35. Cf., *ibid.*, p. 55.

36. Cf., *Interagra*, Vol. VI, No. 3, 1952, p. 300.

37. *Rudé Právo* (Prague), December 17, 1952 as quoted in *News from behind the Iron Curtain*, February 1953, Vol. 2, No. 2, p. 39.

38. *Dále a směleji vpřed k vybudování socialismu v naší vlasti*, op. cit., p. 47.

33. *Funkcionář*, No. 17-18, VI., September 28, 1951, p. 988-989.

without mechanical help of tractors and is unable to hire agricultural workers as he could before the war because no agricultural workers are available and because it would be "exploitation." He can rent a tractor for a higher price than can a smaller farmer but he has to wait for it until after the work is finished in the fields of a co-operative, and if he requires outside labor he has practically only one choice—to join the Unified Agricultural Co-operative. However, this alternative is now gone. It is not only the small and medium farmers who are urged to join the co-operative but also the industrial workers, who quite often own a small piece of land, are asked to do so. President Gottwald complained:

"In many cases even the smallest agriculturist such as industrial workers stay outside the co-operatives; although they are often members and quite old members of our Party. It is necessary to convince them of the advantages of the co-operative."³⁹

It was rather naive of Mr. Gottwald to wonder why even the old members of the Communist Party did not join the co-operatives. It is precisely because they were old communists and knew the doctrine well enough that they did not join. A worker prefers to work in the evening (or his wife during the day) on the field which belongs to him. A Communist Party member, knowing that in a socialistic enterprise profits should be divided according to work done, realizes that since he could spend only limited time on the land, he would be able to get very little. He might, of course, work in the evening for the co-operatives and get his share for his work. But then his work would be an obligation, whereas, having his own plot, he can work whenever he wants and no less important is the fact that he can raise whatever he personally needs most.

Mr. Slansky openly confessed that the socialistic reorientation in the villages is far more difficult than the socialistic reorientation of industry:

"In industry there was a small number of capitalists with a high number of class-conscious industrial workers, who were firmly and enthusiastically for the nationalization of industry. In agriculture, however, we have on the one hand a far more numerous class of village capitalists in every village and on the other hand hundreds of thousands of small producers who are working people and at the same time private owners (entrepreneurs); among them especially the middle element, still with many prejudices against socialism."⁴⁰

Mr. Slansky could have expressed his ideas much more simply. The worker had nothing to lose when industry was nationalized; on the contrary, he had eventually a chance to gain. The farmers would, on the other hand, lose their property. These are the "prejudices" of the farmers against the communist kind of socialism. Mr. Slansky stated: "Our main support in the villages are the industrial and the agricultural workers and small peasants."⁴¹ It is interesting, however, that the industrial worker, even though he is class-conscious, as long as he owns a piece of land has exactly the same prejudice as the farmers who do not want to join the co-operatives. Highly accurate was Mr. Slansky's statement that the task to win the village over for socialism is a complicated and difficult task.⁴² However, the communist government is determined to restrict the capitalist elements in the countryside and in the towns.⁴³ Due to their large number the communist government does not want to antagonize the peasants by direct orders for collectivization but is trying first to persuade them of the advantages of co-operatives. All means of communi-

40. *Ibid.*, p. 45.

41. *Dále a směřuji vpřed k vybudování socialismu v naší vlasti*, op. cit., p. 54.

42. *Cf.*, *ibid.*, p. 45.

43. *Cf.*, *Czechoslovakia on the Road to Socialism*, op. cit., p. 140.

39. *Dále a směřuji vpřed k vybudování socialismu v naší vlasti*, op. cit., p. 31.

cation are being used to explain the agricultural policy of the Communist Party to the farmers. The main principle is to persuade the small and middle peasants to join the co-operatives voluntarily, not to force them. The Communist Party even warned its members against discrimination against small and middle peasants who do not want to join co-operatives. In the cases where the best fields in the country were taken over by the co-operatives and the small and middle peasants compensated with less productive or far distant fields, those co-operatives were severely criticized.⁴⁴

Since no co-operation from the bigger farmers is expected, no consideration is urged in their case. A member of the "village rich" is supposed to get fields on the extreme outskirts of the village. The communists also do not urge, as they did in the case of the small peasants, that the newly allotted fields have to be of the same quality as those which the bigger farmers had before unification of fields.⁴⁵ The main purpose in the exchange of lands of larger farms is to help the co-operatives to receive large and unified fields.

Because the governmental reasons for forming the co-operatives has met with little understanding, especially among the middle peasants, another step is being taken—that of the organization of competition through the co-operatives, with their priority for machinery, more favorable quotas, preferences for rationing, etc., with the aim of pulling in the peasants or of forcing them to give up their land holdings.

Summary

It may be seen then that the communists in their drive toward collectivization have proceeded according to the following steps: (1) Under democracy as

a party policy they advocated private property for smaller farmers, higher prices for products of smaller farmers and, at the same time, they opposed the large landholdings. (2) After the seizure of power they brought persuasion and pressures for the formation of co-operative farms on all farmers, regardless of whether they were small or large, with limitation on relative power of the large ones. (3) Because of the opposition of some of the large farmers, all of them were excluded from cooperatives. (4) After the elimination of the farmers with larger holdings, discrimination was then focused on those with medium holdings. (5) The apparent future step will be the abolition of private farming.

The peasants recognized the full portent of the communist agricultural policy when it was too late. Those peasants who were formerly considered to have medium holdings are now considered the "big" and "village rich." When the threat of expropriation faced large holders, the middle holders saw no personal danger; but with the large holders gone the "middle" holders became "big" farmers. Thus the failure of the group to cooperate in time contributed to their piecemeal destruction as private, independent farmers. The idea of forming co-operatives, which is generally recognized as a healthy idea since it gives smaller farmers a chance for better credit, use of modern machinery and purchase of fertilizers, has been misused by the communists for their political aims.

There is no doubt that the Czechoslovak peasantry is a strong group which represents the same obstacle to the Czechoslovak communist government as did the peasantry in the USSR to the Soviet government. The peasantry opposes the communist system for the reasons indicated above. The propor-

44. *Funkcionár*, No. 17-18, VI., September 28, 1951, p. 1003.

45. *Funkcionár*, No. 17-18, VI., September 28, 1951, p. 1004.

tion of the Czechoslovak peasantry to the total population, however, is far smaller in comparison to that in other Central and Eastern European countries. Since Stalin was able to force his collectivization in the USSR with considerably higher percentage of the peasants, the Czechoslovak communists, utilizing the experience in the USSR, will obviously be able to force their collectivization as well. In collectivization, just as in all other branches of the economy, no private enterprise using hired labor will be tolerated. Even doctors of medicine and lawyers who were working primarily in their own practices were forced to work since the first of January 1952 in health centers and judicial advisory centers. With this development having taken place in the professions, the chance for survival of the independent peasantry has lessened.

The new system of agricultural production tries to mechanize and simplify the work. On the other hand, besides strongly antagonizing the farmers by disregarding the deep-seated tendency of human nature to own property, the new system requires a great deal of administrative work on Unified Agricultural Co-operatives. Large co-operatives can hire trained personnel, whereas the small ones cannot, and the members must do all the additional work themselves. This system needs people who are fully devoted to the idea of co-operative work and who are honest and diligent workers for the common good. The communists are trying hard to educate the new generation in this spirit and to re-educate the older generation.

The problem of a rapid collectivization of agriculture was one of the reasons for the far-reaching division within the ranks of the Communist Party which included the members of the Politbureau. One of the outstanding members of the

Communist Party, Marie Svermova, and also Otto Sling among others, advocated that even the class enemy should be dealt with by democratic methods. They proposed to continue the policy followed by the Communist Party after World War II, since they thought that its success was due to the more democratic manner of the Party in the period of 1945-1948. They felt that persuasion and a gradual process was a safer way to achieve what they term to be a socialistic society. Had their idea been accepted, agriculture would have gone through more gradual changes. However, the more radical wing of the Communist Party in power intends to force collectivization, regardless of the danger of creating new enemies. The idea of this group is that if an arm has to be amputated it is better to amputate it all at once instead of piecemeal amputation. Accordingly, the radicals want to effectuate a speedy transfer from the present society to a "socialistic" one. The new generation will be educated under the communist system. It is expected that a son might feel ashamed of his father—a once successful farmer or a businessman—as having been an "exploiter" and having lived as a "parasite on society," rather than feel personal loss as a painful consequence of the rapid change.

The Czechoslovak peasantry has gone through difficult times quite often in its past history. Eight years ago it was the German occupation and Nazi ideology which aimed to destroy the Czechoslovak independent peasantry and planned to expropriate all the land from the Czechoslovak peasants in order to give it to the Germans, especially to the German war veterans, and to transform the former peasants into landless agricultural workers for the German masters. Due only to the German defeat this plan did not materialize.

Under the communist system the farmers can resist collectivization for some time. The cold war and the Western broadcasts encourage them in resistance, and many of them consider the present situation to be a temporary one. However, the number of independent farmers will continue to decline, and, when their number has become small enough, the last step—the eventual prohibition of private farming, with possible minor exceptions—may follow. This process will, of course, take some time. The communists “mold” the society rapidly or slowly according to cir-

cumstances, with “tactical retreats” whenever it seems necessary, but at all times their doctrine is being carried forward. Thus the Czechoslovak independent peasantry cannot be expected to survive if the international situation continues as at present.

The methods which the Communist Party advocates and is putting into practice are, of course, dictatorial, undemocratic, and entirely foreign to the Czechoslovak people. Thus objections to the means employed may be even more forceful than the objections to the ends themselves.

Accelerated Amortization and Regulatory Policy

By EDWARD NEUNER, JR.*

AS in World War II, the recent period of defense expansion has imposed heavy demands upon the American economy, requiring a substantial enlargement of productive facilities. Unlike that earlier period, however, when direct government investment was common, greater reliance has been placed upon the private construction of new facilities. To induce and stimulate private investment an accelerated amortization of the cost of new projects has been permitted. The technique established by the Revenue Act of 1950 allows all, or part, of the cost of expansion to be depreciated for tax purposes over a five-year period as against the longer normal life of the asset. As a consequence, a substantial reduction of current tax payments may be effected.¹

The privilege of accelerated tax amortization has been limited to emergency facilities. Certificates of necessity have been issued by the appropriate defense authorities to designate those new projects qualifying as part of the needed defense expansion, as well as to establish the portion of the investment cost which is to be subject to a rapid write-off. As of January 1, 1953, \$25 billions of new plant have been certified as emergency facilities, of which \$14.5 billions may be depreciated for tax purposes on an accelerated basis.²

* Assistant Professor of Economics, University of Southern California.

¹ For a general discussion of the accelerated amortization technique and program see: "Accelerated Amortization and Private Facilities Expansion," *Survey of Current Business*, May 1951, p. 11; H. Schlaifer, et al., "Accelerated Amortization," *Harvard Business Review*, May 1951, p. 113; and U. S. House of Representatives, Fifth Intermediate Report of the Committee on Expenditures in the Executive Departments, 82nd Congress, 1st Session, *Certificate of Necessity and Government Plant Expansion Loans*. House Report 504, 1951.

² Office of Defense Mobilization, *Eighth Quarterly Report to the President*, Washington, D. C., January 1, 1953, p. 19.

For the period through June 20, 1952, it has been reported that public utilities, predominantly electric utilities, have received certificates of necessity for approximately \$3.3 billions of new investment, half of which, it is estimated, has been made subject to rapid tax amortization.³ The Federal Power Commission has reported that, as of October 22, 1952, certificates covering \$2.5 billions of investment have been issued to companies subject to the Federal Power Act, of which \$1.2 billion has been certified for accelerated amortization.⁴ Those subject to the Natural Gas Act have received certificates of necessity for \$386 millions and have been permitted rapid amortization for \$97 millions.

It is evident from the above that the utility industries are significantly involved in the tax amortization program. Not only are the amounts in the aggregate large but individual firms have been considerably affected. In view of this substantial participation it would seem desirable to analyze the factors involved in the establishment of an equitable and effective utility regulatory policy with respect to accelerated amortization.

In this connection there are two basic problem areas to be investigated. The first involves the issue: what interest group—the investor or the consumer—shall secure the benefits of accelerated amortization. The analysis of this issue will include a consideration of the objectives of the tax amortization program. In particular, the nature and incidence of the losses, for which rapid amortization is supposed to be a compensation, will be

³ Office of Defense Mobilization, *Sixth Quarterly Report to the President*, Washington, D. C., July 1, 1952, p. 16.

⁴ *Treatment of Federal Income Taxes as Affected by Accelerated Amortization*, Docket No. R-126, Federal Power Commission, January 13, 1953, p. 3.

explored. Then the case for a consumer appropriation of the gains, as well as the factors favoring investor retention of these benefits, will be presented.

The second problem area concerns the manner of accounting for accelerated amortization. Specifically, it deals with the question: what is to be the disposition of the reductions in current taxes which result from the exercise of the rapid write-off privilege. A common regulatory approach has been to allow such reductions in tax liability to increase current income. This technique, as well as various alternative methods of accounting for tax amortization, will be examined.

In addition to an analysis of the issues mentioned above, a policy and program will be proposed which, it is hoped, will resolve some of the problems and difficulties arising from an application of accelerated amortization in the regulated industries. It is a policy, based upon a conclusion drawn from this study, that equity justifies a sharing of tax amortization benefits between investor and consumer. Appropriate accounting methods for achieving this policy goal as well as the manner of dividing the benefits also will be presented.

Mechanics of Accelerated Amortization

In order to discover the consequences and workings of the application of accelerated amortization to utility enterprise, a number of simplified numerical models have been developed. These are presented in Table I. Some of the more important assumptions and simplifications underlying the models should be indicated: That is: (1) Depreciation reserves are deducted from the rate base. (2) Annual depreciation accruals are assumed to be reinvested so that the depreciated rate base is maintained at the constant level of original investment

plus any new externally-financed investment. (3) Revenues and expenses increase in proportion to increases in the depreciated rate base without requiring changes in rate structures. (4) The effects of calculating depreciation upon reinvested depreciation accruals are disregarded.

Sequence I illustrates an initial situation. The calculations are based on the following: operating expenses include all taxes other than federal income taxes; depreciation is at the rate of 2.5% on the investment represented by the depreciated rate base; income taxes are based on operating revenues minus tax deductions (operating expenses plus normal depreciation) and are at the rate of 52%. Rate structures are assumed which produce operating revenues equal to the total cost of the service.⁵ The actual return earned should then equal the calculated "fair" return if all expenditures are as anticipated.

Sequence II indicates the situation if a new investment of \$20 millions is made. The "fair" return as well as all other cost items become larger in proportion to the changed investment. Operating revenues increase by 20% from \$27.4 to \$33.0 millions, without requiring any change in rate structures. This is in harmony with the simplifying assumption that new investment has the same revenue-producing capacity as existing facilities. And since revenues cover the the cost of service, defined to include

⁵ The calculation of the cost of service or necessary operating revenues presents a slight problem; while it must cover no more than total costs, its size determines the tax expense. The problem may be readily resolved as follows: If OR represents operating revenues or cost of service; E, operating expenses; D, depreciation expense; R, return on investment; T, income taxes; Td, tax deductions; and Tr, tax rate; then:

$$\begin{aligned} \text{OR} &= \text{E} + \text{D} + \text{R} + \text{T} & \text{and } \text{T} &= \text{Tr}(\text{OR} - \text{Td}) \\ \text{OR} &= \text{E} + \text{D} + \text{R} + \text{Tr}(\text{OR} - \text{Td}) \\ \text{OR} - \text{Tr}(\text{OR}) &= \text{E} + \text{D} + \text{R} - \text{Tr}(\text{Td}) \\ (1 - \text{Tr})(\text{OR}) &= \text{E} + \text{D} + \text{R} - \text{Tr}(\text{Td}) \\ \text{OR} &= \frac{\text{E} + \text{D} + \text{R} - \text{Tr}(\text{Td})}{1 - \text{Tr}} \end{aligned} \quad (1)$$

TABLE I—MECHANICS OF ACCELERATED AMORTIZATION

Item	I	II	III	IV
	Initial	Normal	Amor- tization Period	Post-Amor- tization Period
Depreciated Rate Base.....	100.0	120.0	120.0	120.0
%.....	.06	.06	.06	.06
Calculated "Fair" Return.....	6.0	7.2	7.2	7.2
Operating Revenues.....	27.5	33.0	33.0	33.0
Operating Expenses.....	12.5	15.0	15.0	15.0
Depreciation.....	2.5	3.0	3.0	3.0
Income Taxes.....	6.5	7.8	5.98	8.06
Actual Return.....	6.0	7.2	9.02	6.94
Decrease or Increase in Tax Liability due to Rapid Amortization.....	1.82 (decrease)	.26 (increase)
Income Tax Deductions.....	15.0	18.0	21.5 ¹	17.5 ²
Taxable Income (operating revenues minus tax deduc- tions).....	12.5	15.0	11.5	15.5

¹ Sum of operating expenses, 15.0; normal depreciation on non-amortizable investment, 2.5; accelerated depreciation of 20% on amortizable investment, 4.0.

² Sum of operating expenses, 15.0; and normal depreciation on non-amortizable investment, 2.5.

operating expenses, depreciation, income taxes and a "fair" return, the actual return equals the calculated return. Sequence II can be said to represent the "normal" situation which might be expected under our assumptions, given an enlarged investment. It becomes the standard against which changes in taxes and investor return under accelerated amortization are to be measured.

In Sequence III, the effect for a single year of an accelerated amortization of the \$20 millions of new investment is shown. Operating revenues are the same as in Sequence II, since a similar increase in investment has occurred; for like reasons, expenses and depreciation charges are unchanged. Permissible tax

deductions have, however, increased by an annual amount of \$3.5 millions over the norm of Sequence II. This is a result of depreciating the additional investment for tax purposes at the 20% rate permitted under the accelerated amortization program as against the normal 2.5% rate. The effect is a reduction in tax liability of \$1.82 millions on an annual basis, or \$9.1 millions over the five-year rapid amortization period. On a relative basis, the annual tax reduction is equal to 9.1% and, at the end of five years, will amount to 45.5% of the amortizable investment.

At the end of the five-year rapid amortization period, however, tax liability increases if there has been no

cha
Sec
res
Sin
pur
hav
the
sult
pay
Seq
lion
of
ope
unc
less
amo
I
liab
tax
mai
illus
The
post
\$9.1
cal
the

S
sent
valu
to in
the
dete
and
can
the
rate
and
ated
tion

* Gi
asset
rapid
No
Amor
then
period
T₁ -

and sin

change in tax rates. This is evidenced in Sequence IV which presents the annual results for the post-amortization period. Since depreciation deductions for tax purposes on the amortizable investment have been fully utilized, tax deductions in the post-amortization period will fall, resulting in heavier tax payments. These payments will be above the "norm" of Sequence II by the amount of \$.26 million annually, or approximately 1.3% of the amortizable investment. And if operating revenues and expenses remain unchanged, then the actual return will be less than the "fair" return by that amount.

It is to be noted that the enlarged tax liability, which may be designated as the tax deficiency, continues over the remaining life of the asset. In the case illustrated, this is a period of 35 years.⁶ The total tax deficiency over the entire post-amortization period is thus equal to \$9.1 millions, an amount which is identical with the total tax reduction during the five years of accelerated amortization.

Since the amounts and percentages presented above depend upon the numerical values used in the models, it may be well to indicate briefly, in more general terms, the factors and their relationships which determine the size of the tax reduction and the subsequent tax increase. This can be shown as follows: if T_r represents the tax rate; A_r the rapid amortization rate; D_r the normal depreciation rate; and I the investment subject to accelerated amortization; then, for the amortization period,⁷

⁶ Given a depreciation rate of 2.5%, the service life of the asset is 40 years, of which 5 years are under conditions of rapid amortization.

⁷ Normal taxes..... $T_1 = T_r(OR - E - D_r I)$;
Amortization-period taxes, $T_2 = T_r(OR - E - A_r I)$;
then the amortization-
period tax reduction..... $= T_1 - T_2$; but
 $T_1 - T_2 = T_r(OR) - T_r(E) - T_r(D_r)I - T_r(OR) +$
 $T_r(E) + T_r(A_r)I$
and simplifying, $T_1 - T_2 = T_r(A_r)I - T_r(D_r)I$, or
Annual Tax Reduction $= T_r(A_r - D_r)I$ (2).

$$\text{Annual Tax Reduction} = T_r(A_r - D_r)I$$

Furthermore, using a like notation and assuming no changes in tax rates, revenues or expenses, it can be seen that, for the post-amortization period⁸,

$$\text{Annual Tax Increase} = T_r(D_r)I$$

These equations point up the significant variables which determine the size of the amortization-period tax reductions and the subsequent tax increases. The importance of the tax rate is clear. But of importance, too, is the normal depreciation rate. As it increases, other factors constant, the reduction in taxes due to rapid amortization becomes smaller. Accelerated amortization may thus be more desirable in the case of assets having low rates of depreciation. The utility industries, with their customary long-lived plant, are likely to find the rapid amortization privilege particularly advantageous.

In light of the tax amortization relationships illustrated above, the not uncommon idea that the tax reductions associated with accelerated amortization constitute an immediate and unequivocal gain or savings is clearly misleading. It is more accurate to consider the reduction in tax liability a deferment of taxes since, at the end of the rapid-amortization period, tax liability will increase unless applicable corporate tax rates fall. Under the assumption that such tax rates, as well as revenues and expenses, remain unchanged over the life of the asset, the total of additional tax liability during the entire post-amortization period will equal the total tax "savings." These tax reductions or "savings" become realized gains only when and if tax rates decline. And the extent of the gain will depend upon

⁸ Post-amortization period taxes, $T_3 = T_r(OR - E)$;
then post-amortization tax increase $= T_3 - T_1$, but
 $T_3 - T_1 = T_r(OR) - T_r(E) - T_r(OR) + T_r(E) + T_r(D_r)I$;
Annual Tax Increase $= T_r(D_r)I$ (3).

whether the lower tax levies absorb all or only a part of the extra tax liability and and whether the reduced tax rates prevail during the entire post-amortization period.

But even if post-amortization tax rates are unchanged, there still remain the other benefits which arise from accelerated amortization. These take the form of returns from an investment of the funds made available by the deferment of taxes. The tax deferments can be thought of as constituting an interest-free loan subject to possible repayment, in uniform installments, after a five-year grace period. And, if the tax deferment funds are invested in utility property, depreciation accruals on these assets can provide the cash funds to repay the tax deferment "loan."

Accelerated amortization *per se* could result in losses only in the eventuality of post-amortization tax rates being higher than current rates. And earnings on the tax deferment "loan" would have to be considered as an offset before the extent of the loss could be determined. However, even under conditions of rapid amortization, an expansion of productive facilities could be imprudent if the income-producing potential of the assets were exhausted before the recoupment of their investment cost. But here again, earnings on the tax deferment would have to be taken into account. These earnings would have the effect of minimizing losses of this sort.

Since one of the major benefits of accelerated amortization will not be realized until an appropriate reduction in post-amortization tax rates is put into effect, it is of interest to determine the magnitude of the needed change. It can be determined by calculating the tax rate which will reduce annual post-amortization tax liability by the amount of the tax deficiency. Referring to the example

of Sequence III and IV of Table 1 and using the revenue and expense values shown there, the tax deficiency of \$.26 million can be entirely offset if tax rates are reduced 1.7 percentage points from 52% to approximately 50.3%.⁹

The reduction of 1.7 percentage points in tax rate is, however, not sufficient to eliminate the post-amortization tax deficiency, if only the investment subject to rapid amortization is considered. This is due to the fact that the fall in tax rates applies to all revenues. The reduction in tax liability on income generated by the the old non-amortizable investment therefore aids in absorbing the tax deficiency. It follows that the reduction in tax rates required to offset the tax deficiency will be greater to the extent that only the revenues and expenses related to the amortizable investment are taken into account. The tax rate decline, determined in this manner, is a more correct indication of what is needed to convert tax deferments into realized tax gains. Savings resulting from reduced tax liability on old investment, which would have been obtained even in the absence of a rapid amortization program, should not be considered an offset to the tax deficiency, any more than the savings

⁹ The determination of the necessary post-amortization tax rate can be accomplished as follows:

If Tr_1 represents the post-amortization tax rate necessary to offset the tax deficiency;

Tr , the amortization period tax rate;

A , the post-amortization taxable income;

Dr , the normal depreciation rate;

I , the investment subject to accelerated amortization; and if post-amortization taxes, in the absence of changes in tax rates, are equal to $Tr(A)$; and post-amortization taxes are larger than normal by the amount of the tax deficiency; then, the tax rate $-Tr_1$ —which, when related to the post-amortization taxable income, will produce a tax liability no greater than normal, or equal to post-amortization taxes minus the tax deficiency, is

$$Tr_1(A) = Tr(A) - Tr(Dr)I \quad (\text{see equation 3}), \text{ or} \quad (4)$$

$$Tr_1 = Tr[A - Dr(I)]$$

A

Applying the values of Sequence IV:

$$Tr_1 = .52 [15.5 - .025 (20)]$$

15.5

$$Tr_1 = 50.32\%$$

from greater operating efficiency would be so treated.

This point may be exemplified and the proper tax rate reduction for Sequence IV, Table 1, determined by isolating the operating revenues and expenses which pertain only to the amortizable investment of \$20 millions. These are \$5.5 and \$2.5 millions, respectively. Taxable income in the post-amortization period is then \$3.0 millions—the difference between these amounts—no depreciation deduction for tax purposes being available. Substituting these values for the terms of equation (4), the rate necessary to offset the tax deficiency becomes 43.3%, or a decline of 8.7 percentage points from the 52% tax level.¹⁰

It is apparent from the above that, depending upon the proportion of amortizable investment to total investment, a slight decline in post-amortization tax rates may absorb the tax deficiency. At least, as in the examples cited, it will permit normal investor returns to be earned. But it is also clear that the tax deferment cannot be properly considered to have been fully converted into a realized tax gain until a lower tax level is reached—a tax level which will absorb the tax deficiency in circumstances where only the income of the amortizable investment is taken into account. These relationships are of particular significance in the regulated industries. Their implications for regulatory policy will be analyzed in greater detail below.

Regulatory Policy and Technique

Having presented the mechanics of accelerated amortization in some detail,

as well as some of the more important relationships involved, it is desirable to analyze their impact upon the system of utility regulation and to consider some of the regulatory issues arising from the tax amortization program. First to be dealt with is a basic policy question involving the assignment of amortization benefits to either consumer or investor groups. Second, the problems relating to the proper manner of accounting for rapid tax amortization will be considered. And in a concluding section, a policy of sharing tax gains between consumer and investor will be advocated and a method of achieving it in an efficient and equitable manner will be explained.

Consumer versus Investor Appropriation of Tax Gains. A basic policy question to be met by utility regulatory commissions concerns the disposition of tax amortization gains. Are these benefits to be appropriated by consumers? Alternatively, should full retention by investors be permitted? While current regulatory attitudes seem to accept the principle of full investor appropriation, it is not immediately apparent that this policy choice is unquestionably justified. There may be some basis in equity for asserting the legitimacy of a consumer appropriation of these tax benefits.

There has been considerable agreement that one of the objectives of the accelerated amortization program has been to stimulate the expansion of basic productive facilities during the defense mobilization. This was to be accomplished by offering in the form of rapid write-off privileges some compensation for the risks, losses and extra costs that such expansion might entail.¹¹ Considerations

¹¹ See U. S. Congress, Hearings before the Joint Committee on Defense Production, 82nd Congress, 1st Session, *Defense Production Act, Progress Report No. 6*, 1951, pp. 243-252; cf., U. S. House of Representatives, Hearing before a Subcommittee of the Committee on Expenditures in the Executive Departments, 82nd Congress, 1st Session, *Inquiry into the Policies, Procedure and Program Involving Granting of Certificates of Necessity and Defense Loans*, 1951, pp. 333-337, 394-400.

¹⁰ Utilizing equation (4):

$$Tr_1 = \frac{Tr[A - Dr(I)]}{A}$$

$$Tr_1 = \frac{.52[3.0 - .025(20)]}{3.0}$$

$$Tr_1 = 43.3\%$$

of equity as well as efficiency in achieving the purposes of the program suggest then, that those who bear these losses also receive the compensatory tax amortization benefits. In the non-regulated industries, investors generally absorb such losses; in the case of regulated utilities, this is not as certain to occur.

If a policy of consumer appropriation of tax amortization benefits is to be justified, it must, therefore, be based upon a finding that the burdens of defense expansion will actually be borne by the customers of utility enterprise. Such may result if the extra and special costs of expansion are so mingled with ordinary capital and operating expenditures as to be impossible to identify and thus become part of the cost of service for which customers are responsible under the prevailing system of regulation. Or, if the special costs connected with defense production can be recognized, they may be of a variety which cannot be accounted for efficiently by a deduction from the rate base or an elimination from operating expenses in future rate cases.

The kinds of extraordinary costs which have been mentioned to justify accelerated amortization of electric power facilities include the potential losses from an over-expansion of plant, losses due to poor location of facilities relative to civilian load centers, costs of using relatively obsolete designs, inferior materials, and other expedients in order to speed construction.¹² These are obviously costs which cannot be efficiently and objectively determined so that regulatory agencies can exclude them in rate-making proceedings on the grounds that they have been or are being recovered through accelerated amortization. The practical application of the principle of "used and useful" property in utility regulation has

never been particularly successful in eliminating obsolete property or excess capacity.

The extraordinary costs of defense expansion, therefore, may not serve to reduce the returns available to investors since, aside from the regulatory "lag," they can be shifted to consumers. If Congress recognizes the losses that may be suffered by an expansion of productive facilities to meet the needs of defense mobilization and offers compensation through a program of rapid-tax amortization, it would seem proper and equitable that the benefits should accrue to those bearing the loss.

On the other side of the issue, a policy of investor appropriation may be justified by the following contentions. First, it may be argued that the objective of Congress in establishing the accelerated amortization program was not primarily to offer compensation for losses but rather to provide incentives so that the group responsible for the basic investment decision would initiate the requisite expansion of productive facilities. Even in the regulated industries, investor groups or their representatives have this power to determine the rate of investment. It is conditioned by the same factors which obtain in non-regulated industries, excepting only a somewhat more powerful tradition of a "duty to serve."

The last, however, may not be particularly effective, from a legal point of view, in securing the necessary expansion where large new investments must be made. Thus, whatever the merits of consumer appropriation on equity grounds, for regulatory agencies to deny the tax deferments or their benefits to utility investors would destroy the incentives which Congress sought to provide. Regulatory bodies, it may then be urged, have no proper role to play in

¹² O. Ely, "Real Facts on Tax Amortization of Emergency Facilities," *Public Utilities Fortnightly*, Aug. 2, 1951, p. 172.

evaluating the necessity for a congressional policy and exercising a veto thereon, particularly where the consequences may be a retardation of the mobilization program.

Furthermore, it may be argued that the assumption of regulatory efficiency, implicit in the assertion that all costs involved in defense expansion are shifted to consumers, is unwarranted. The regulatory "lag" in adjusting rates may be so great as to impose considerable financial burdens upon utility investors. Given a sharp rise in the cost of constructing new facilities during the defense expansion period, existing rate structures may not generate enough revenues to give normal returns on the additional investment. A regulatory "lag" in bringing about the appropriate adjustment in rates may not permit these extra costs to be shifted to consumers quickly enough to prevent a drop in investor returns. And once the losses are incurred, they remain with the investor group.

This argument, however, may be insufficient to justify a policy of full investor appropriation. There are still the other costs of defense expansion which may be borne by consumers. Should not some of the benefits of rapid amortization be assigned to cover these? How large are the losses due the regulatory "lag"? Would it not depend upon the efficiency of particular regulatory commissions? The argument that there are identifiable special costs which are a burden only to investors may be valid, but it may do no more than justify a sharing of the tax benefits between investor and consumer.

Finally, it might conceivably be argued that there are no really significant special costs associated with the defense expansion by electric and gas utilities, and thus no burdens to be imposed upon consumers. The new facilities in-

volve additions to basic productive capacity which are useful for meeting civilian needs as well as military demands. The most important special costs are likely to be the fixed charges and operating expenses associated with excess capacity at the end of the defense period. But, given the dynamic growth characteristics of these industries, it may not be clearly erroneous to assert the existence of a civilian market able to absorb that capacity. Therefore, in the absence of special costs which are likely to be shifted to them, consumers could not justify an appropriation of tax benefits; investors could always base their claim upon the incentive effect.

These, then, appear to be the major arguments on the issue of consumer versus investor appropriation of tax amortization benefits. On the one hand, there is the seeming inequity of having an investor group receive the benefits while a consumer group bears the costs intended to be compensated. On the other hand, there is the need to provide incentives, if the defense expansion is to be privately financed. In addition, there may be special costs which investors cannot shift to consumers, as well as the possibility that no special costs will actually be incurred.

To reach and establish a proper and equitable tax amortization policy, regulatory agencies will have to weigh and balance these opposing contentions. The task is not easy; the full resources of informed regulatory judgment will be needed.

Accounting for Accelerated Amortization. The manner of accounting for the reductions in tax liability during the amortization period depends upon the outcome of the consumer versus investor appropriation issue. Nevertheless, given the policy choice, there are problems and difficulties

involved in selecting the proper accounting method—one which results in an achievement of the policy objective sought without disadvantage to other interest groups. An analysis of alternative accounting techniques will be attempted: first, on the assumption of full consumer appropriation, and, then under the condition of full investor appropriation.

A policy of consumer appropriation can be implemented by a technique of reducing consumer prices in an amount equal to the annual tax deferment. It is to be noted, however, that if tax rates do not fall in the post-amortization period, the cost of service necessary to maintain returns to investors will have to rise. In fact, the total reduction in the cost of service during the five-year amortization period will be equaled by the total increase in the cost of service during the post-amortization period to take care of the greater tax liability.

The technique of rate reductions as described is open to question. It takes as a reduction in the cost of service what may be only a deferment of the tax cost of providing utility service. Even the acceptance of a principle of rate increases during the post-amortization period may be inadequate to overcome the impropriety of the method. While investor interests may be protected, there will be an inequitable distribution of the cost of service between present and future consumers. And, as a practical matter, regulatory "lags" in adjusting rates during the post-amortization period may still result in injury to investors.

Despite the infirmities of this method, the Federal Power Commission has tentatively adopted it in at least one case. In an order involving the Texas Eastern Transmission Corporation, the Commission conditioned its approval of the interim settlement of a pending rate in-

crease by requiring the refund of any tax reductions arising from the exercise of rights under an existing certificate of necessity.¹³ Although the refund requirement implies a consumer appropriation policy, this issue was not discussed in the opinion. It may be noted, however, that the action is not a final expression of policy. Subsequently, the F.P.C. instituted rule-making proceedings looking toward the establishment of appropriate policy and regulations with respect to accelerated amortization.¹⁴ These proceedings have apparently not been concluded by the beginning of June 1953.^{14a}

An alternative and superior technique for securing consumer appropriation of tax-amortization benefits involves an absorption of tax deferments and tax deficiencies through the depreciation expense account. During the five-year period of accelerated amortization, depreciation expense would be charged with an additional amount equal to the annual tax deferment and such amounts would be accrued in the regular depreciation reserve. The cost of service would remain unchanged, and the investor return would be at the normal level, despite the diminished tax liability. Post-amortization requirements would be met by a reduction of depreciation expenses equal to the amount of the tax deficiency. The appropriate depreciation rate to accomplish this could be ascertained by the application of a simple remaining-

¹³ Opinion No. 239, *Texas Eastern Transmission Corporation*, Federal Power Commission, November 10, 1952, p. 11.

¹⁴ *Treatment of Federal Income Taxes as Affected by Accelerated Amortization*, Docket No. R-126, Federal Power Commission, January 13, 1953.

^{14a} On June 16, 1953, the Federal Power Commission issued a notice of proposed rule-making in its Docket No. R-126, dealing with accelerated amortization. As was indicated in this notice, amendments to the Commission's Uniform System of Accounts are contemplated which will, if adopted, result in a reserve method of accounting for rapid amortization. This development seems to imply a policy of investor appropriation. It is still possible, however, for the Commission to adopt policies with respect to cost-of-service determination in rate cases which might result in consumer appropriation of amortization benefits.

life method of estimation. If service-life estimates have not changed, this will result in a reduction of annual depreciation expense sufficient to absorb the enlarged tax liability and thereby maintain investor returns.

The depreciation expense method has the advantage of not requiring adjustments in utility rates while securing the tax deferment for consumers and maintaining returns to investors. If post-amortization tax liability falls, the reductions in cost of service can be the basis for lowered rates. In addition, assuming that the extra depreciation accruals are invested in utility plant and the full reserve is deducted from the resulting rate base, consumers will have service from additional plant without the payment of an investor return upon the property. But regardless of what is done with the funds representing the tax deferment, full consumer appropriation would require the deduction from the rate base of the entire enlarged depreciation reserve.

In the achievement of a policy of investor appropriation, the most common technique is to include only the reduced tax liability as an operating expense and accordingly increase current income. Such a method is basically defective, from an accounting point of view, since the tax reduction, as has been shown, is merely a deferment of tax liability. It becomes income only insofar as post-amortization tax rates decline. It would appear proper to segregate tax deferment funds until it becomes somewhat more certain that future tax rates will fall.

Considerations of this character seem particularly important in the utility industries where plant facilities have a long service-life. Even with reduced tax rates, the tax deferments become converted into realized gains only in small uniform amounts over the remaining life of the asset. And since the service-life of

utility plant may extend over thirty or more years, it might be imprudent to assume that future tax rates will be sufficiently below current rates over this entire period so as to convert tax deferments fully into tax savings.

However, granted the accounting impropriety when a "current income enlargement" method is applied; granted a possible injury to investors by the consequent overstatement of current income, in what way does a consumer interest suffer? Assume that the tax deferments are permitted to increase the income available to investors and that the enlarged returns are disposed of by dividend payments. Then, in the post-amortization period, if tax rates do not decline, there will be an inadequate return on investment equal to the amount of the tax deficiency. The utility may request an upward adjustment of rates on the basis of the insufficient return.

If such rate increases were granted, there would be a multiple burden upon consumers: first, to the extent that they were actually bearing the costs of defense expansion; second, insofar as they were making the tax deferment a realized gain, despite the absence of post-amortization tax cuts by Congress; and third, by virtue of the need to provide additional operating revenues in an amount greater than the deficiency in investor return, due to the "leverage" effect of corporate income taxation.

It may be objected, however, that regulatory agencies, aware of the implications of accelerated amortization, will not be so ready to grant rate increases merely because of deficiencies in investor returns. This is likely to be true except for the possibility that, without careful scrutiny and the maintenance of adequate records, it may be extremely difficult to determine what part of the deficiency is due to tax amortization and

what portion is due to other factors for which consumers have responsibility. More important, the financial and credit standing of the utility may be adversely affected if the regulatory body refuses to adjust the inadequate return. The consequences for consumers may be higher rates as the cost of capital increases.

Furthermore, there is a more subtle manner by which tax deferments may be converted into investor gains at the expense of consumers, one which does not require an increase in utility rates. As was developed previously, it does not necessitate much of a reduction in post-amortization tax rates to offset the annual tax deficiency when amortizable investment is a relatively small portion of total investment. The reduction in tax liability on revenues generated by old investment helps absorb the tax deficiency resulting from accelerated amortization. In the case of Sequence IV, for example, it would require no more than a reduction of 1.7 percentage point in tax rates—from 52% to 50.3%—which reduction, when applied to total taxable income, would completely absorb the tax deficiency. But were amortizable investment to be considered alone, it would necessitate a tax reduction to 43.3% before the tax deficiency could be fully offset.

It is this lower tax rate, moreover, which properly measures the reduction in tax levels necessary to fully convert the tax deferment into an investor gain without injury to consumer interests. This is due to the fact that, in the regulated industries, any diminution in tax liability on the non-amortizable investment should accrue to consumers if the returns for which customers have responsibility are being met. Surely, if no investment subject to accelerated amortization were involved, such would normally be the case. It follows, then, if

post-amortization tax rates were to fall, the protection of a consumer interest would require that some part of the diminution in tax liability be absorbed by a price reduction. But the difficulty arises that the necessity for such price changes may not be apparent or may even be resisted, since investors may be earning no more than a normal return. And, as a practical matter, regulatory "lags" now work in favor of the investor.

In short, the above argument asserts that reductions in tax liability, to which consumers are entitled, may instead be used to convert what are still no more than tax deferments into realized gains for investors. To avoid such burdens, continuous scrutiny on the part of regulatory agencies and a prompt adjustment of utility prices under appropriate circumstances are required. Whether the necessary degree of regulatory effectiveness will be constantly maintained may be the heart of the matter. Other accounting techniques for dealing with rapid amortization, which minimize the need for regulatory intervention, may be more satisfactory.

If increasing current income is a defective method of accounting for accelerated amortization, how, then, may the policy of investor appropriation be attained? One device is to credit and accumulate the tax deferments in the surplus account. The technique would retain the funds within the enterprise and so eliminate the adverse financial effects which would follow were they to become the basis for dividend payments. The disadvantage of such a method, however, is that it does not usually provide for an automatic increase in post-amortization income to counterbalance the tax deficiency. And it shows as an increase in investor equity that which is only a deferment of tax expense.

A more desirable accounting procedure might be to accumulate the tax deferments in a special contingency-type reserve. In addition, provision would be made for amortizing this reserve, when the tax deferments cease to accumulate, by periodic credits to income over the remaining life of the assets involved. This drawing-down of the special reserve would thus provide a means of offsetting the post-amortization tax deficiencies without further regulatory intervention.

Such a system of accounting for accelerated amortization has been adopted by a number of regulatory agencies.¹⁵ The Michigan Public Service Commission, which appears to have led in the development of the reserve method, has established the following typical accounting requirements. An amount equal to the tax deferment is charged annually to an account entitled "Provision for Deferred Federal Income Taxes" as a separate subaccount under Account 507—Taxes, and a subaccount under Miscellaneous Reserves entitled "Reserve for Deferred Federal Income Taxes" is credited.

A method of drawing upon this reserve is also established. In the post-amortization period, the Michigan regulations provide that there is to be an annual charge to the special reserve and a credit to a sub-account under Taxes called "Portion of Current Federal Income Taxes Deferred in Prior Years" of amounts ". . . equal to the increase in the Federal income taxes payable for that year due to the fact that normal depreciation cannot be deducted because

of previous amortization of the property under such necessity certificates."¹⁶ In addition, balances remaining in the special reserve applicable to property previously subjected to rapid amortization are to be credited to Taxes when such property is retired. Finally, a requirement is imposed that annual reports be made to the commission by the affected utility concerning the action taken and the amounts disposed of under these accounting rules.

The Michigan system just described may, in certain respects, be inconsistent with an objective of full investor appropriation of tax amortization benefits. One such situation arises if post-amortization tax rates fall to a level which fully offsets the tax deficiency. Then, under the Michigan regulations, no charge to or transfer from the special reserve is permitted. Such charges or transfers occur only if and to the extent that tax liability increases due to accelerated amortization. But full investor appropriation of tax amortization benefits requires that the fall in post-amortization tax rates result in some gain to investors, depending upon the magnitude of the tax decline.

If investors are to secure such benefits, the special reserve should be diminished by an annual uniform charge. This amount is to be determined by relating the remaining-life of the asset to the amount in the reserve. The annual uniform charge should then either be credited in its entirety to the tax account if post-amortization tax rates have not changed; or it should be credited to surplus or current income if tax rates have fallen to the appropriately lower level which fully counterbalances the tax deficiency; or, given partial post-amortization tax reductions, the charge to the special reserve should be credited in

¹⁵ *Re Detroit Edison Company*, 90 P.U.R. (NS) 76, (Michigan P.S.C. 1951); *Re Public Service Co. of New Hampshire*, 93 P.U.R. (NS) 129, (New Hampshire PUC 1952); *Re Indiana and Michigan Electric Company*, 96 P.U.R. (NS) 51, (Indiana P.S.C. 1952); *Washington Public Service Commission v. Washington Water Power Company*, 98 P.U.R. (NS) 12, (Washington P.S.C. 1953); for a general discussion of the special reserve method see E. E. Roll, "Accounting for Tax Amortization of Defense Facilities," *Public Utilities Fortnightly*, Dec. 20, 1951, p. 869.

¹⁶ *Op. cit.*, p. 78.

the proper proportions between the tax account and an income account.

A possible justification for the Michigan practice is the fact that, over the long post-amortization period, there may be years in which tax rates will actually be higher than those prevailing during the five-year rapid amortization period. Because of the inability to take even normal depreciation deductions in calculating tax liability, the higher tax level will impose a particularly heavy burden. Since the extra burden is the consequence of accelerated amortization, it would seem proper that it be assessed against the benefits of rapid amortization. By retaining these benefits within the special reserve, they are kept available for such contingencies and the financial integrity of the enterprise maintained.

Under the Michigan system, then, the balances remaining in the special reserve at the end of the post-amortization period, or what is the same thing, when the asset involved is retired, represent that portion of the tax deferment which has become a realized gain. For example, if taxes fall immediately at the beginning of the post-amortization period to some level which fully offsets the tax deficiency and remains there until the property is retired, then the balance in the special reserve, at the time of retirement, would be equal to the total tax deferment. This balance should be credited to income or surplus if those tax amortization benefits which depend upon the reduction of post-amortization tax rates are to accrue to investors.

The Michigan practice, however, provides that these balances are to be credited to the tax expense account.¹⁷

¹⁷ The Michigan accounting regulations specify as follows: "(2) to charge to 'Reserve for Deferred Federal Income Taxes' and to credit to 'Portion of Current Federal Income Taxes Deferred in Prior Years,' an amount, or amounts, equal to any balance in said reserve at December 31st of each year for plant retired during said year which had been amortized under such necessity certificate." *Op. cit.*, p. 78.

This practice would seem inconsistent with a policy goal of full investor appropriation unless it is agreed that the credit to tax expense will indirectly result in an enlargement of income. Such is likely to be the case. Nevertheless, it would seem more desirable to make the transfer directly to the surplus account.

It should be pointed out, too, that the special reserve may not be deducted from the rate base in determining the return component of the cost of service during rate-making proceedings. Otherwise, investors would be deprived of the other major source of benefits under accelerated amortization, namely, the returns from an investment of tax deferment funds in utility plant.

A Proposal for Sharing Tax Amortization Benefits. The foregoing analysis has dealt with two alternative policy objectives with respect to the benefits of accelerated amortization. One policy seeks the appropriation of these benefits for consumers; the other would allow such gains to accrue entirely to investors. There is, nevertheless, the possibility that the equities of the case may be better served by a sharing of benefits between both the consumer and the investor.

It is argued that the practical application of the concept of "used and useful" property in the utility industries offers substantial protection to the utility investor in the event of over-building or obsolescence due to defense expansion. Since the burden of these extra costs would thus fall upon the consumer, some part of the compensation resulting from congressional tax policy may be legitimately subject to consumer appropriation. It is suggested that the certain and immediate gains of accelerated amortization—returns on the reinvestment of tax deferment funds—accrue to investors; the contingent benefits that are de-

pendent upon post-amortization tax-rate changes are to go to consumers.

This goal can be easily attained by a technique of charging to the depreciation expense account not only normal depreciation, but, in addition, an amount equal to the tax deferment. In the accrual of the annual depreciation expense, however, the part represented by tax deferments is placed in a special depreciation reserve which is not deductible from the rate base. This reserve would reach a maximum amount, at the end of the five-year amortization period, equal to the total of tax deferments and would remain at that level until the physical property against which it was accrued is to be retired. During the post-amortization period, normal depreciation expense applicable to the amortizable investment would be reduced by pro rata amounts which in total would equal the tax deficiency. The effect of this procedure would be to maintain the adequacy of investor returns, without an increase in utility prices, by absorbing and offsetting the tax deficiency through the depreciation expense accrual.

In the above method, the stipulation that the special depreciation reserve which accumulates the tax deferments is not to be deducted from the rate base assures to investors the returns from an investment of tax deferment funds in utility property. These earnings would not be insignificant. They would consist of a utility rate of return upon the total tax deferment amount each year during the entire post-amortization period, as well as the income earned during the five-year period in which the deferments were accumulating.¹⁸ Under this proposal,

¹⁸ In the case of the models in Table 1, the total tax deferment amount is \$9.1 millions. Considering only the post-amortization period, the present value of a 6% return upon that amount for a period of 35 years would be \$7.9 millions, if discounted at the rate of 6%.

It may be argued that the full amount of the tax deferment funds is not available throughout the post-amortization

too, the presumption is that consumers rather than investors would bear the risk of an increase in post-amortization tax rates.

The consumer would obtain benefits from accelerated amortization only if post-amortization tax rates fell and the excess investor returns that resulted were quickly appropriated by price reductions. It is evident, though, that the difficulty of predicting the level of post-amortization taxes makes the consumer gain distinctly uncertain. Were tax rates to decline, however, it would result in gains to consumers exceeding the amount of the tax deficiency eliminated in this manner. This is a consequence of the fact that a reduction of tax liability reduces the total cost of service or necessary operating revenues; but a decline in operating revenues, all revenue deductions except taxes constant, induces a further decline in tax liability.¹⁹

Finally, the policy of sharing amortization benefits and the technique described to effectuate the policy would not unduly burden or complicate the administration of utility regulation. Relative to other methods, it may indeed simplify the regulatory control of rapid amortization. For example, if all factors including tax rates remain unchanged, then no further regulatory intervention, because of the operation of accelerated amortization, would be required other than to check the necessary depreciation adjustments. Furthermore, if a rate proceeding were instituted during the amortization period, normal tax liability and normal deprecia-

period to earn a return for investors, being diminished in order to meet the increased tax liability. The argument is invalid, however, if it is remembered that the tax deficiency is being met and thus the tax deferment "loan" is being repaid out of current depreciation expense accruals.

¹⁹ As an example, referring again to Table 1, a decline in tax rates which will just counterbalance the tax deficiency of \$2.6 millions would result in a reduction in necessary operating revenues of \$.46 millions. Furthermore, this annual cost of service reduction, if continued over 35 years, would have a present value to consumers of \$6.67 millions, if discounted at the rate of 6%.

tion accruals would be used in determining the cost of service. In the post-amortization period, however, actual tax payments would be utilized, a matter of some convenience while depreciation expense for the amortizable investment would be measured by some method, such as remaining-life, which adjusts for the enlargement of the depreciation reserve during the five years of rapid amortization.

These, then, are some of the details of the proposal to share tax amortization

benefits. Underlying the proposal is the premise that both consumers and investors have valid claims but that an objective measure of relative shares is not available. The policy offered represents an application of the almost universal standard of equity in such instances, namely an equal sharing of benefits. Finally, the techniques suggested to implement the policy are workable and may be an effective means of resolving the problems of regulatory administration raised by rapid amortization.

Mechanics of the Urban Economic Base: The Problem of Terminology

By RICHARD B. ANDREWS*

THE relatively rapid rate at which the American economy has shifted from a rural agricultural to an urban commercial-manufacturing axis is a widely recognized fact. When this fact is combined with the associated fact that there is now a very high percentage of the country's population living under urban conditions it becomes apparent that the urban land economist is faced with a definite responsibility.¹ This responsibility takes the form of developing as promptly as possible a better understanding of the internal workings, or economic mechanics of our urban communities. The emphasis must be largely economic for the reason that our urban culture has economic motives and forces as its principal explanation of creation, growth, and decline.

It has been only within the past twenty-five to thirty years, however, that definite steps have been taken by urban land economists to rationalize the internal economic functioning of the city. We are now at the point where we are aware of rough relationships between what we sometimes call "basic enterprises" and "service enterprises" of a community and between the employment sum of these two and total community population. But concerning the dynamics of these elements we know relatively little.²

* University of Wisconsin School of Commerce.

¹ Under a new definition of "urban" the 1950 census reported 64 percent of the population in this category and an additional 7 percent in places of less than 2,500 persons. *Table 5a—Population in Groups of Places Classified According to Size: 1950. Number of Inhabitants, United States Summary; United States Census of Population: 1950, Bureau of the Census, United States Department of Commerce, Washington, D. C. 1952.*

² Most of the precision work of a theoretical nature which relates to the economics of urbanization has been performed in the general problem field of the location of economic

Partly as a result of the relative recency of investigation into the field of what might be termed "urban economic mechanics" there have arisen two conditions which are typical to the developmental stage of any new field of thought. These conditions center around (1), the fairly wide number of terms in vogue that refer to the same thing or situation within the urban economic structure and (2), the lack of agreement on the meaning of single terms.

If social scientists are to make satisfactory progress with the statement and analysis of a problem situation, they must proceed in a scientific manner and do their best to come to an agreement on terms so that there will be some comparability of lines of reasoning and conclusions. Failure to act in this manner has often been the basis for justified criticism of social science procedures.

It is, therefore, the objective of this brief article to present a summary statement of the evolution of the terms which have come into use in discussions of the mechanics and make-up of the urban economy and to highlight what appear to be the principal points of confusion.

Principal attention is given in the paragraphs that follow to the development and meaning of the term "economic base" which in a current specialized sense refers to the export activities of a community that bring in its *net* earnings and enable it to continue as an independent

activity. This external approach has been most competently handled by Alfred Weber, E. M. Hoover, and others. The city planner, is, of course, that technician who on the firing line contending with the internal problems of city growth and adjustment has seen, though often imperfectly, the multiple relations of his local economic structure to the housekeeping problems of planning such as zoning, traffic control, parking, annexation, and the like.

dent economic entity. Consideration is also given to the terminology surrounding the economic complement of the base, the "service enterprises," whose activities are completely local and involve no export beyond the predetermined limits of the economic community. The base and service elements are, in the opinion of current theory, the principal parts of the economic machine. Finally, attention will be given to the apparent confusion that exists between the terms "economic survey" and "economic base study."

Again let it be emphasized that this review of terminology seems necessary because of the fact that while some of the terms referring to the base and service elements are synonymous others are inclusive of additional concepts. In a few cases the same term has an entirely different meaning when used by two authors. So it is, in part, for purposes of clarification, and it is hoped, increased precision that the following paragraphs are presented.

Development of Terminology

In the *Regional Survey of New York and Its Environs* the statement was made that:

"... the multiplicity of . . . productive occupations may roughly be divided into those which can be called primary . . . manufacturing goods for general use (i.e., not confined to use within the community itself), and those occupations which may be called *auxiliary*, such as are devoted directly or indirectly to the service and convenience of the people engaged in the primary occupations."³

Here there is, clearly, no reference made to the "economic base" in precisely those terms yet the ideas apply, from the standpoint of terminology, to what is considered by many today to be the base, i.e.,

primary occupations, and the economic complement to the base, i.e., auxiliary occupations.

Weimer and Hoyt in their text *Principles of Urban Real Estate* present a series of terms which refer to the base concept.

"... a city must be able to command a stream of income from beyond its borders if it is to be founded at all. In other words, some division of labor between city and country or between one city and others is essential to urban development. Since the existence and growth of a city seem to depend especially on these outside sources of income, they have been referred to as 'basic employment supports' or as 'urban growth employment.' In contrast to the basic sources of income, there are 'secondary' or 'non-basic' 'urban service' employments, that is, sources of income derived from serving the needs of those who command incomes from beyond the borders of the city."⁴

Hoyt's statement added substantially to the range of synonyms for the idea of the base and its economic reciprocal. Yet there were other terms, such as those contributed by Nussbaum who described basic enterprises as "town builders" and those enterprises which served the local community alone as "town fillers."⁵ An extension of these terms could be found in the thinking of the Regional Survey of New York which made reference to "... those (activities) that create populous districts and those that follow population . . ."⁶

In yet another treatise the term "economic base" is defined as the "supporting activities" of the community or those activities that emphasize production of exportable goods and services.⁷ From this line of reasoning has evolved yet

³ Arthur M. Weimer and Homer Hoyt, *Principles of Urban Real Estate* (New York: The Ronald Press Company, 1948) pp. 85-86.

⁴ F. L. Nussbaum, *A History of the Economic Institutions of Modern Europe* (New York: F. S. Crofts and Company, 1933), p. 36.

⁵ Haig, *op. cit.*, p. 13.

⁶ Federal Reserve Bank of Kansas City, Missouri, *The Economy of Albuquerque, New Mexico*, 1949, p. 21.

⁷ Robert M. Haig, *Major Economic Factors in Metropolitan Growth and Arrangement*, Vol. I (monograph) of *Regional Survey of New York and Environs* New York: 1928, p. 43.

another term which pinpoints the concept of the base, namely, "export industries" or enterprises. Vining aptly states this latter concept when he says:

"A community seems to be organized around its "export" industry, this being the source of the flows which this community injects into the larger independent system and which acts as a balance for the flows diverted from the larger system and channeled into this community."⁸

Vining goes on to introduce other terms which by his standard of definition apply to a broader geographical concept than the community but which are, nonetheless, applicable to a description of this more restricted economy.

"Within a primary regional unit [approximately the familiar primary trade area] . . . a part of the employment produces products and services sold only or primarily to the inhabitants of this region. This employment is called the "residential" or passive employment The rest of the employment produces primarily for export to other regions. This employment is called the "primary" or "active" employment"⁹

Up to this point the main fault that can be found with terminology surrounding the subject is that it is over-heavy in alternate terms. However, the meanings of these terms admittedly remain uniform and clear. A degree of confusion, however, creeps in with a rather broad rendering of the base concept presented in the Municipal Year Book which states that:

"Economic base or function whether it is manufacturing, retail trade, wholesale trade, mining, government [is] that [which] furnishes the major volume of employment in the city."¹⁰

⁸ Rutledge Vining, "The Region as an Economic Entity and Certain Variations to be observed in the Study of Systems of Regions," *American Economic Review*, May 1949, *Papers and Proceedings of the Sixty-first Annual Meeting of the American Economic Association*, Dec. 1948, p. 90.

⁹ *Ibid.*, p. 93.

¹⁰ Grace K. Ohlson, "Economic Classification of Cities," *The Municipal Yearbook* (Chicago: International City Managers' Association, 1950), p. 29.

In this statement the emphasis of meaning as it applies to the base has been shifted from the idea of export activity to the idea of the base as major employer in the community. Aside from the shift in terms a question arises as to whether or not it is a fact that the base or even a combination of base elements would furnish the major volume of employment if they were to be defined in terms of export activity. If primacy of employment is actually meant to be the condition which distinguishes the base then, truly, a new way of looking at the base has been introduced.

That the meaning of the term "economic base" is not uniform in all quarters is further apparent in a statement made at an urban problems conference sponsored by the Chamber of Commerce of the United States. Here it was said:

"The two senses in which we think of the economic base of the community are these: First, the tax or income base on which the tax revenue for any community is predicated, on which it relies for the funds to provide the public services and the other facilities that the community needs. Second, its broader application to the fundamental sources of income that may be available to the citizens in any particular community, from which they derive their livelihood and on which the community's activity as a whole depends. I am thinking particularly of such industries as mining, agriculture, fishing, construction, manufacturing, and wholesale and retail trade."¹¹

Here the base appears in different dress as the total income earnings of the community available as a tax base. The other meaning stated by Smith is somewhat closer to the traditional view but vague in its use of the expression "fundamental sources of income."

Another aspect of semantics which is likely to cause trouble is the fact that

¹¹ Larry Smith, "The Economic Base of the Community," *Business Action for Better Cities* (Chamber of Commerce of the United States, Washington, D. C., 1952), p. 44.

there is terminology in the field of general economics which closely parallels some of the key terms used in referring to the structure of the urban economy. This provides a basis for confusion that would beset, particularly, economists other than land economists reading materials on the economic base. A short statement by Colin Clark is here introduced which concisely highlights this point as he outlines the standard, broad classification of industrial activities. The similarity of these terms with some of the terms used to describe urban industrial economies and the possibility of consequent confusion because of differing meanings is readily apparent:

"Primary industry includes agricultural, pastoral, forest, fishing, and hunting industries. Secondary industry includes manufacture, electric power production, mining, building, and construction. Tertiary industry is defined by difference as all other economic activities."¹²

The Economic Base Study and the Economic Survey

It is appropriate next to call attention to the fact that there does not seem to be complete agreement at the present time on the meaning of the term "economic base study." The essence of the question is whether a base study concentrates its attention on the basic exporting enterprises of a community and their service complements, on the basic enterprises alone, or on the full scope of the local economy in all its manifold aspects. A statement of the latter point of view is well put by Ratcliff when he says:

"In general, the process of appraising the economic base of a community is a matter of gathering all available facts of economic significance, analyzing past experience and present status, and basing the forecast on an extension of recent trends as modified by those factors of change which can be dis-

cerned. More specifically, this procedure involves a prediction of the nature, volume, and stability of employment and income in the community, and a forecast of the characteristics of the population. As a first step, there should be an inventory of local economic resources—the geographic advantages of the community, the manpower resources, and the productive activities now being carried on. . . . The primary . . . activities should be identified . . .

"The analysis of the economic base of a community requires both a cross-section description and the identification and evaluation of the forces of change."¹³

Some reports labelled as "economic base studies" are as broad in their coverage as those Ratcliff describes.¹⁴ However, they do not always make a careful identification of and devote intensive analysis to the "city building" or basic elements of the economies in question. This leads the present writer to the conclusion that in the minds of some planners and economists the term "economic base" refers to the *entire* economy of the community which serves as a *base* for the continued functioning and existence of that community. There are, on the other hand, those who think of the economic base as constituting the "city-building," "urban-growth" factors or "export industries" which serve as the base or main support of the *rest* of the local economy—in short, a base and economic superstructure type of approach. There is, therefore, some ground for believing that an economic base study may be a more limited type of venture and can be viewed as a *part* of a broader economic survey.

For the sake of keeping terminology clear and unequivocal there might be some point in labelling broad-scale description (and, preferably, analysis) of a community's economy as an "economic

¹² Richard U. Ratcliff, *Urban Land Economics* (New York: McGraw Hill Book Co., 1949), p. 42.

¹⁴ Philadelphia City Planning Commission, *Economic Base Study*, Planning Study No. 2, 1949.

¹³ Colin Clark, *The Economics of 1960* (London: McMillan & Co. Ltd., 1942), p. 22.

survey." Such a survey, as presently issued, might or might not include a careful and precise job on the city-building activities of the community. However, if it did include such an analysis it might, in turn, be appropriate to include it in the title thus, "Economic Survey and Base Study of" Moreover, separate studies of the base alone should certainly carry a precise title and not the broadcast sort of labelling now indulged in.¹⁵

A few titles taken at random may better demonstrate the confusion on this point. For example, *The Economy of the Sacramento Area*,¹⁶ and *The Economic Survey of Allegany County, Maryland*¹⁷ include no discussion whatsoever of the specialized concept of the economic base as it has thus far been presented. On the other hand, there is a very competent study, "*The Economy of Albuquerque, New Mexico*" which not only uses the specialized concept of the economic base but makes some very valuable contributions to the theoretical content of that concept.¹⁸ And again, on the other side, as was noted in the case of the excellent Philadelphia study, the exact title, "Economic Base Study," was employed though not in the specialized sense. But in the case of the Hoyt study, *The Economic Base of the*

Brocton, Massachusetts Area, we again encounter the specialized use of the term.¹⁹

Conclusions

Whereas this entire situation may not appear to be a matter of any profound seriousness to many persons it is unfortunate in that it is, of course, symptomatic of a lack of general agreement on terminology in the field and is certainly indicative of some degree of confusion to the outsider and beginning student. Moreover, such confusion is certain to retard the rate of research progress in this particular area of thought.

It is natural that terminology is far from set in the field of urban land economics inasmuch as it is a field that is relatively new to economics while the concept of the economic base is of even more recent origin. Consequently, the idea of the base and its attendant terms have not yet become a standard part of the vocabulary of general urban economy studies. It must also be pointed out that the concept of the economic base represents a special approach to the description and analysis of urban economies. It is a new, though far from untried, analytical technique. Therefore, as is true of all ideas that are still in a semi-raw state, it is not surprising to find the term "economic base" being employed in equally reputable reports with meanings that are quite distinct one from the other.

In the hope that agreement on, and simplification of terms can evolve more quickly in the field this writer here presents his view of term usage as a basis for argument. It appears that the specialized use of the term "economic base" has earned a sufficiently wide acceptance in respectable quarters to have gained the status of legal tender. It is further recommended that in general description the

¹⁵ It should not be concluded from anything that has been said by this writer concerning economic surveys and economic base studies that he believes the one to be "better" than the other. Obviously, the broad urban economic survey whether it includes the specialized base approach or not is a must for the planner and economist. Without the comprehensive approach as a background many wrong conclusions might be drawn from a "pure" base study. These two terms are, therefore, simply labels for the minimum data required for an understanding of any urban economy. While it might be desirable for all "economic surveys" to have as an assumed part an economic base study, the term "base study" would undoubtedly have to be retained for narrower gauged surveys which were pointed at only that portion of the metropolitan economic structure.

¹⁶ Sacramento Chamber of Commerce, *The Economy of the Sacramento Area* . . . , Sacramento, California, 1951.

¹⁷ University of Maryland, *An Economic Survey of Allegany County, Maryland*, Bureau of Business & Economic Research, Vol. 1, No. 1., 1947.

¹⁸ Federal Reserve Bank, Kansas City, Missouri, *op. cit.*

¹⁹ Homer Hoyt, *A Report on the Economic Base of the Brocton, Massachusetts Area*, 1949.

terms "basic industry" and "basic enterprise" be discarded since they do not seem to carry the proper connotation that would embrace, for example, such base forms as education, government, and religion. Moreover, they do not describe accurately the economy of the commuters' community, investment export, etc. Hence it seems proper to adopt either the term "basic activity" or "export activity." Of these two the former seems the better. In these circumstances the complement of the base would then be referred to as "service activity." Finally, from what has been said in the course of this article there should be no doubt as to the advisability of referring to the base,

in an economic sense, as an export activity rather than, for example, as the principal employer of a community.

The urgency of the situation surrounding the tidying up of the terminology of urban economic mechanics stems from the conditions of intensified urbanization mentioned at the beginning of this article. It also relates to the impaired efficiency of land economists in explaining urban economies and assisting in the rectification of their economic difficulties when they work with terminological tools that tend to be blunt in their imprecision and, consequently, inadequate to the difficult work to be done.

S
adm
esta
the
is a
poli
tun
pur
revi
hist
urb
the
Sov

Bac

H
whi
of t
two
rap
tum
anc
citi
rap
citi
buil
hou
the
ing
cha
trib

* 7
Colle
Univ
Mass
the pl
Penn
Chica
Assist
versit
search
O
statist
one r
F
Maur
An E

Soviet Policy on Urban Housing and Housing Rent

By MAURICE FRANK PARKINS*

SOVIET policy on urban housing and the principles of housing ownership, administration, and rental have been established by the government as part of the over-all national economic plan. This is a situation new in the history of housing policy and therefore offers ample opportunities for comparative analysis. The purpose of this paper is twofold: first, to review briefly some of the more relevant historical and legal aspects of Soviet urban housing, and secondly, to discuss the problems of housing rent in the Soviet Union.

Background and Policy of Urban Housing

Historically, Russia's industrialization, which actually occurred in the latter half of the nineteenth and beginning of the twentieth centuries, was accompanied by rapid urbanization. In the process of tumultuous growth, the physical appearance and public facilities of most Russian cities remained in a primitive state. The rapid influx of the rural population in the cities and the limited construction of new buildings resulted in overcrowding¹ of housing accommodations. In addition to the inadequacy in the number of dwellings, housing in most large cities was characterized by the inequality of its distribution.² However, overcrowding be-

fore the Bolshevik Revolution existed mainly in large cities and industrial centers while, in the smaller cities, the population enjoyed comparative freedom from congestion.³ This situation has reversed itself since the Revolution as may be seen from the following available figures. In 1923, the average dwelling space⁴ per inhabitant in Moscow was 6.8 square meters (about 73 square feet), in district (metropolitan) centers (outside Moscow), 6.1 square meters (about 66 square feet), and in other cities, 5.9 square meters (about 63 square feet), while in cities of the Georgian Republic, only 4.7 square meters (about 51 square feet).⁵

But in the process of tremendous industrial expansion which has been going on in the Soviet Union since then and the rapid growth of cities, the housing situation steadily worsened. This may be illustrated by citing official figures for Moscow. The average dwelling space per capita in Moscow in 1912 was about 8 square meters (about 86 square feet). This has dropped to 6.8 square meters (about 73 square feet) in 1923, to 5.7 square meters (about 61 square feet) in 1924, and to 5.3 square meters (about 57 square feet) in 1926. In 1952, the aver-

* The author is a graduate of the National Agricultural College, has a Bachelors of Landscape Architecture from the University of Pennsylvania and a Masters of City Planning, Massachusetts Institute of Technology. He has been on the planning staffs of Arlington County, Virginia; Pittsburgh, Pennsylvania; and of the Chicago Plan Commission and the Chicago Housing Authority. He is a former Research Assistant of the Russian Research Center, Harvard University and is now a Research Associate of the Institute for Research in Social Science at the University of North Carolina.

¹ Overcrowding conditions in pre-Soviet and Soviet statistics are defined as having two or more persons occupying one room.

² For fuller treatments of the background problems, see Maurice Frank Parkins, Alex Peskin, and John A. Parker, *An Examination of Soviet Theory and Practice in City and Regional*

Planning (Chapel Hill: Institute for Research in Social Science, University of North Carolina, 1952) (unpublished), see especially pp. 100-131 on conditions of Russian cities on the eve of the Bolshevik Revolution; see also *Entsiklopediia Mestnogo Upravleniia i Khoziaistva* (Encyclopedia of Local Government and Economy) (Moscow, 1927), p. 640-652.

³ *Entsiklopediia Mestnogo Upravleniia i Khoziaistva* (Encyclopedia of Local Government and Economy) (Moscow, 1927) p. 640; and from personal interviews with recent Soviet emigres.

⁴ Housing area in USSR statistics is denoted by the term "living floor space," or "living space," or "housing space," or "dwelling space," and includes all residential space, namely, living rooms, bedrooms, and dining rooms, but excludes entrance halls, corridors, bathrooms, kitchens, toilets, closets, etc.

⁵ *Entsiklopediia Mestnogo Upravleniia i Khoziaistva*, op. cit., p. 640-47.

age dwelling space per Moscovite was 4 square meters (about 43 square feet).⁶

Some idea of the urban housing crisis in the USSR can be gained by following the daily Soviet press which continuously reports serious housing shortages throughout the country. It is not uncommon to find a Soviet worker, his wife, and two or more children occupying one room and sharing kitchen and toilet facilities with a minimum of three other families. Young people delay marriage because of lack of living quarters, and those who take the chance live in separate communal bachelors' houses for many months before finding a room.⁷ In general, it can be safely stated that, with the exception perhaps of those living in the largest industrial centers, the average Soviet city worker has less housing space now than the average urban worker had 35 years ago, or before the Revolution.

In the years immediately following the Revolution, the new regime established the general principle of providing houses for all, and set the machinery in motion for improving the deplorable housing situation. This principle later formed the basis for the existing Soviet housing law.⁸

The first acts taken by the Soviet government in the field of urban housing were the issuance of decrees abolishing private ownership of land, the means of production, and the right to home ownership.⁹ The first decisive step was the

municipalizing law of August 20, 1918,¹⁰ which declared the bulk of the real property of the urban population to be state or municipal property and which brought the building activity, steadily deteriorating since 1914, to an absolute standstill.¹¹ At the same time, the municipal authorities started a planned redistribution of available accommodations. Millions of workers were thus rehoused. In Moscow alone, out of a total of 1,700,000 inhabitants (1918), 500,000 were relocated in this manner.¹² This step improved the housing situation of the working population somewhat, but considerably accelerated the wear and tear of the dwellings concerned. Until 1921, no charge was made for rent.¹³ It should be added that not all urban housing was municipalized. The ownership of houses small in size and value were generally not interfered with. In fact, later government decrees allowed, and even encouraged, the building and ownership of houses of a certain size by private individuals.¹⁴ The land itself which belongs to the government is leased for an indefinite period at very low rates, and the rightful owner of the house may sell, mortgage, or

¹⁰ M. S. Lipetsker, *Zhilitishchnoe Pravo Grazhdan SSSR (Housing Laws of the Citizens of the USSR)* (Moscow: Izdatel'stvo "Pravda," 1947), p. 5.

¹¹ Parkins, *loc. cit.*

¹² *Bol'shaia Sovetskaia Entsiklopediia (Great Soviet Encyclopedia)*, 2nd ed., vol. XII (Moscow: "Bol'shaia Sovetskaia Entsiklopediia," 1952), 302.

¹³ John Hazard, *Soviet Housing Law* (New Haven: Yale University Press, 1939), p. 9.

¹⁴ This was especially true after World War II when government loans, amounting to 5,000-10,000 rubles at 2 percent interest, and an amortization period of from five to ten years, were granted to individual home builders, provided that they invest at least 30 percent of the total cost of the construction. (T. D. Alekseev, *Zhilitishchnye Zakony [Housing Laws]*, Moscow and Leningrad: Izd-vo Ministerstva Kommunal'nogo Khoziaistva RSFSR, 1947, pp. 39-48, 70-73.) The current minimum cost of constructing a 5-room single-story house by an individual averages about 30,000 rubles (about \$7,500), but loans are hard to get. Only Stakhanovites, specialists and others with special privilege may, if approved by a special committee at their place of employment, secure a grant from the Municipal Bank. (*Trud*, Moscow, April 19, 1953.)

⁶ *Ibid.*; Maurice Frank Parkins, *City Planning in Soviet Russia with an Interpretative Bibliography* (Chicago: University of Chicago Press, 1953), pp. 115, 116.

⁷ *Ibid.*; *Trud* (Moscow), April 7, 14, 1953; *Pravda* (Moscow), March 4, 1953.

⁸ For a detailed discussion of the specific laws, edicts and government regulations, see Vladimir Gsovski, *Soviet Civil Law* vols. I and II (Ann Arbor: University of Michigan Law School, 1948 and 1949); John Hazard, *Soviet Housing Law*, (New Haven: Yale University Press, 1939); and for official literature dealing with various aspects of Soviet housing policy, ownership, rental, building tenancy, and management-occupancy relationship, see Parkins, *op. cit.*, pp. 166-74.

⁹ Parkins, *op. cit.*, p. 11, citing "RSFSR Laws of 1917-1918," text 3 and 346, text 83, sec. 3, text 624; "RSFSR Laws of 1920," text 512, secs. 1, 2.

bequeath it to his heirs.¹⁵ In the main, however, the present bulk of the residential buildings in large cities and industrial centers is owned by the government or its various departments and industrial enterprises.¹⁶

During the period marked first by the New Economic Policy (NEP) (1921-28) and then by the planned development of the country through the Five-Year Plans, there was, to be sure, a considerable revival of building activity.¹⁷ It failed, however, to bridge the gap between the net additions to the total housing volume and the ever-increasing growth of the urban population. During the period of 1923-40, while urban housing actually increased from 155 million square meters (approximately 166,842,000 square feet) to 254 million square meters (approximately 393,700,000 square feet),¹⁸ an increase of 64 percent, the net urban population grew from 21.4 million to 61.0 million,¹⁹ an increase of 185 percent. Thus, the available dwelling space per individual declined from an average of 7.25 square meters (approximately 78 square feet) in 1923 to 4.15 square meters (approximately 45 square feet) in 1940. This represents a drop of 46

percent of the minimum norm established by government law as compatible with healthy conditions.

During World War II, about 70 million square meters (approximately 753,480,000 square feet) or a little less than half of the existing urban housing was destroyed²⁰ by the Germans or the retreating Russians.²¹ In order to stimulate a post-war revival in housing construction, the government passed a decree of August 26, 1948, establishing a private building program. Small plots of land were allotted to individuals for unlimited time ownership and state credit was extended to finance the building of over 12 million square meters (approximately 129 million square feet) of housing.²² In addition, the planning and building process was reorganized and centralized; new construction methods, prefabrication and new types of building materials were introduced. All this helped in the solution of the housing problem. By the end of the Fourth Five-Year Plan (1950), a total of about 100 million square meters (approximately 1,076 million square feet) of housing space was reported either built anew or reconstructed.²³ Despite these impressive gains, there is sufficient evidence to indicate the Soviet government has not been able to relieve the existing housing crisis.²⁴ The current housing shortage in the USSR, particularly in regard to the overcrowding situation in the formerly invaded areas, must be viewed not only as an index of low living standards, but

¹⁵ Vladimir Gsovski, *Soviet Civil Law*, vol. I (Ann Arbor: University of Michigan Law School 1948), p. 107.

¹⁶ *Ibid.*, p. 459; *USSR Information Bulletin*, vol. XI, No. 9 (Washington, D. C.: Soviet Embassy 1951), p. 289.

¹⁷ During the NEP period alone, about 16.8 million square meters (approximately 180,835,000 square feet) of new and reconstructed urban housing space was made available, of which about a half was accounted for by direct government participation, and the remainder by private enterprise and state-aided housing cooperatives. (*Narodnoe Khoziaistvo SSSR, Statisticheskii Spravochnik* [The National Economy of the USSR, A Statistical Handbook] Moscow and Leningrad: Gosudarstvennoe Sotsial'no-Ekonomicheskoe Izdatel'stvo, 1932, p. 301.)

¹⁸ *Bolshaia Sovetskaia Entsiklopediia*, op. cit., p. 205.

¹⁹ N. A. Voznesenskii, *Voennaia Ekonomika SSSR v Periode Otechestvennoi Voiny* (Moscow, 1948), translated into English as *Economy of the USSR During World War II*, (Washington, D. C., Public Affairs Press, 1948), p. 8.

²⁰ *Bolshaia Sovetskaia Entsiklopediia*, op. cit., p. 207.

²¹ The Soviets blame the Germans for the heavy loss of Soviet property, while information supplied from personal interviews with recent Soviet emigres indicates that the Russians too had a heavy hand in it.

²² Gsovski vol. II, op. cit., p. 845, citing "USSR Laws, 1948," text 62.

²³ *Bolshaia Sovetskaia Entsiklopediia*, op. cit., p. 207.

²⁴ Parkins, op. cit., pp. 115-16.

also as a factor immediately affecting labor efficiency.²⁵

Policy on Housing Rent

In view of the inadequacy of the existing housing, Soviet policy on rent and rights of tenants came under strict government regulations in order to insure the maximum utilization of available dwelling space. The basic principles of the Soviet law governing the amount of rent and the space allowed the tenant have been carried over from an earlier period.²⁶ They have undergone practically no change in the last twenty-five years, and are still in force today.²⁷ Supervision of urban housing and tenancy is in the hands of local Soviets. Generally, all questions of allocation and eviction are regulated by administrative procedure, without recourse to the courts.

Procedure of Assigning Housing Space. The common procedure of assigning housing space depends upon the principle laid down by law that housing forms part of the labor contract and the legal status of the particular residential building.

Housing owned by the state and industrial enterprises, as well as those leased by them, are assigned especially for employees of the central government

offices and organizations and industrial establishments and transport. They are under the control of the directors of such offices and enterprises. Vacant space is assigned in these dwellings by virtue of their employment under contract, and must be vacated with the termination of employment.²⁸ If an employee is dismissed for any reason or leaves of his own accord, or changes jobs to another office or branch of industry within the same organization, he is automatically evicted from his dwelling without court action. Tenants may exchange premises, but only with the consent of the controlling authority. Continuous subletting of a room within a dwelling unit to "derive unearned income" may result in the loss of that room to the original tenant, even though "the room does not constitute any surplus space."²⁹ Eviction may also result in case the house is unsafe, or is subject to demolition in accordance with city planning programs. In the latter case the evicted tenants are compensated.

Relationship of House Rent to Unit of Rationing and Earning Power of Individual. Housing rent serves as the basic source of income for financing housing management activities in the USSR. It must also balance the upkeep, repair,³⁰ and amortization of housing.³¹

House rent has been fixed by law according to a specified floor space per capita,³² adjusted to the earning power of the individual, and could not exceed one-tenth of a family's income.³³ The

²⁵ The Soviet government officially conceded that inefficiency of labor and high mobility of workers and technicians were due largely to low wages and lack of dwelling accommodations. The Fourth Five-Year Plan proposed certain measures to relieve this situation, and singled out at least one economic area, the Eastern part of the USSR, whereby 1950 wages would be raised up to 20 percent and housing space considerably enlarged (see *Narodnoe Khoziaistvo SSSR [National Economy of the USSR]* Moscow: Gosplanizdat, 1947, p. 249, 408).

²⁶ The basic rental law of 1926 has not been changed, except that the maximum rental has increased somewhat with the change of the social status of the tenant. ("USSR Laws, 1926," text 312 with amendments; "RSFSR Laws, 1926," text 402.) The principles affecting the occupancy and use of dwellings are laid down in the "USSR Law of October, 1937," which also abolished house-leasing and dwelling-construction cooperatives (see Gsovski, vol. II, *op. cit.*, pp. 130-135).

²⁷ Gsovski, vol. I, *op. cit.*, p. 459; E. M. Chossudovsky, "The Development of Housing in the USSR," *Housing and Town and Country Planning Bulletin*, No. 5 (New York: United Nations Department of Social Affairs, 1951), p. 91 (n. 19).

²⁸ *Ibid.*, p. 462.

²⁹ *Ibid.*, p. 464.

³⁰ Repair here refers only to that part of the building that is used in common by all tenants (corridors, staircases, etc.); repair of individual dwelling units is done by the tenants themselves, except in cases where the entire house undergoes a capital repair program. Any major changes or remodeling within the individual dwelling unit are done by its tenants themselves at their own expense, following approved plans and permission of proper local authorities.

³¹ Lipetsker, *op. cit.*, p. 5.

³² T. D. Alekseev, *Zhilishchyne Zakony (Housing Law)* (Moscow-Leningrad: Izdatel'stvo Ministerstva Kommunal'nogo Khoziaistva RSFSR, 1947), p. 36, 155.

³³ *Ibid.*, p. 39.

Soviets' claim that their house rents are relatively cheap when compared with those in other countries is a myth. They fail to mention the additional expenses that the Soviet tenant has to pay for various repairs, special services and communal facilities for which the American tenant, for instance, is not charged. Moreover, the average tenant in the United States has about three times as much space as the worker in the Soviet Union and does not have to share his kitchen and bathroom facilities with four and more other tenants.³⁴

How is Rent Calculated in the USSR? Soviet rental consists of two parts, the *basic rental* and the *personal rate*, and is arrived at through a complicated process of calculation, as will be shown below.

In order to calculate the house rent and establish any surplus living space, for which a higher rate is paid, a "living norm" or 9 square meters (approximately 98 square feet) per inhabitant was established in 1926,³⁵ and is still considered desirable.³⁶ The norm determines the right to living space, which is basic to Soviet housing law.³⁷ In prac-

tice, this norm neither represents a guaranteed living space nor reflects the average space actually occupied by a Soviet urban dweller as was indicated above. However, according to Gsovski, housing authorities in charge of assigning living space keep in mind these norms in order to meet the minimum level set as compatible with health requirements, but the existence of such standards does not preclude them from using other higher or lower norms as a basis.³⁸ The significance of the living norm, then, lies in the fact that "the space occupied by a person within the limits of this norm may not be taken away from him without his consent."³⁹

If a family occupies living space in excess of 97 square feet per person and if this excess is not more than about 50 square feet for the entire family, no extra rent is paid. Any surplus above this figure increases the payment amounting to three times the standard rate.

Basic Rent

The amount of the basic rental, which does not include expenses of water, heat, light and garbage disposal, is contingent on factors such as the location of the building in the city as well as in the geographic zone of the country, the location of the dwelling unit in the building, and the quality of the living quarters. The amount of the personal rate of house rent is calculated in relation to the social status of the tenant, composition of his family, the amount of earnings of all members of his family, and privileges and exemptions enjoyed by the occupant

³⁴ In 1928, the Soviets estimated that the expenditures for housing rent, including all additional charges, amounted to 15.5 percent of the total earnings of the average worker or employee in the USSR: Solomon M. Schwarz, *Labor in the Soviet Union*, (New York: Praeger, 1952), p. 245. During 1927-1929, manual workers and office employees, in some European countries spent the following amounts of their total earnings for housing rent, including heat and light: 14.5 percent in Belgium; 20.1 in Denmark; 18.5 in Finland; 15.5 in Germany; and 17.8 in Norway (*Year Book of Labor Statistics*, ILO, Montreal: 1943, p. 177). Later USSR statistics on the total housing expenses, including all additional charges, borne by Soviet wage and salary earners were not made public. For a more recent glimpse of existing living conditions in Moscow, see report of two U. S. women editors who visited the Soviet Union in April 1953, in *U.S. News and World Report*, April 24, 1953.

³⁵ V. P. Maslakov, N. L. Filatov, and V. V. Barmin, *Finansirovanie Zhilishchno-Kommunal'nogo Khoziaistva* [Financing the Housing-Municipal Economy] (Moscow: Gosfinizdat, 1948), p. 116. Unlike some practices in the United States age of inhabitant is not a factor in calculating the housing norm per person.

³⁶ Ia. P. Levchenko, *Planirovka Gorodov, Tekhiko-Ekonomicheskie Pokazateli i Raschety* [Planning of Cities, Technical-Economic Indices and Estimates] (Moscow: Gosizdat Literatury po Stroitel'stvu i Arkhitekture, 1952), p. 106.

³⁷ Alekseev, *op. cit.*, p. 36.

³⁸ Gsovski, vol. I, *op. cit.*, p. 461. The norm of 9 square meters is called a "rental norm," or, as it is called by Soviet planners, a "planning norm," in contrast to a "sanitary norm," which varies in different cities but averages 8.25 square meters (about 89 square feet) per inhabitant. In 1945, the sanitary norm was considerably reduced in a number of cities. (*Ibid.*, p. 460.)

³⁹ *Ibid.*, p. 461.

under the law.⁴⁰ Within these limits, a standard rate for the use of one square meter (approximately 10.7 square feet) of living space is fixed according to schedules enacted by the local city Soviet (Council) and is strictly regulated by law. This rate varies from 30 to 44 kopeks⁴¹ per one square meter of space per month.⁴² The living floor space on which the basic rental is calculated excludes that of entrance halls, corridors, bathrooms, toilets, pantries, closets, floor space occupied by stoves and ovens, and even kitchens, and takes into account only the space actually used as living-sleeping-dining rooms.

The absence or presence of certain facilities and services would be considered a cause for deductions from or additions to the basic rent (see *infra*). The resultant application of the basic rental rate to additions, depending on the presence of both gas and central heating systems, and deductions for defects in the dwelling unit and absence of certain facilities, forms the total rental rate per one square meter of living space, which is called the "housing tax." This tax, which is constant, is established for a room regardless of the social status and earnings of the occupant. Its change depends only on the conditions of the rooms and the location and servicing of the house.

Deductions and Additions of Basic Rent. All deductions from and excesses of the basic rental rate, established within the range of from 30 to 44 kopeks for each

square meter of living space, may be divided into two basic groups:⁴³

1. Deductions and excesses, depending upon the geographic location of the house within the city, and the degree of services and facilities available in the house in general, and in the dwelling unit in particular. In large cities, if the house is located away from the center, the deduction is not more than 10 percent; if running water is lacking in an apartment but is available either in the building or in the yard nearby, 5 percent; if toilet facilities in general are lacking, 10 percent; if electricity is lacking, 5 percent. Additions to the basic rental rate are made in the following amounts, if these facilities or services are present: for a bath tub, 2 percent; gas, 3 percent; hot water, 5 percent. If a building contains several apartments having varying services and facilities, the deductions and increases are calculated separately for each category of apartment.

2. Deductions from the basic rate for defects in the dwelling unit may include the following: for a semi-dark room, 50 percent, and a dark room, 75 percent; a damp apartment, 20 percent, and a low ceiling, 5 percent. If a multi-story apartment building lacks an elevator, the deduction is 5 percent for each floor above the fourth; rooms in the attic receive a 15 percent deduction, and rooms that are used for passage, 30 percent. For rooms in an English basement the deduction is 50 percent of the rate.

Semi-dark rooms are considered as habitable rooms and include those lighted by a secondary light, e.g., with windows opening into other naturally lighted rooms, halls, a staircase, as well as those rooms whose light is closed off by nearby buildings, fences, and other obstructions. Dark rooms are those that lack all natural light.

⁴⁰ For the basic elements governing rentals, see I. I. Evtikhiev, *Sovetskoe Zhilishchnoe Zakonodatel'stvo* [Soviet Housing Legislation] (Moscow, 1945), p. 58.

⁴¹ One hundred kopeks equal one ruble. The ruble, according to the official exchange rate, is worth about 25 cents in American currency. Its real value to the Russian worker, however, is not measurable simply in terms of 4 rubles for one dollar. Economists have estimated that the real purchasing power of the ruble is closer to 28 to the dollar; *U. S. News and World Report*, April 24, 1952, p. 54.

⁴² *USSR Laws of 1926*, text 312 with amendments; *RSFSR Laws, 1928* text 402; *USSR CIVIL LAW* (1948), p. 67.

⁴³ Maslakov, *et al.*, *op. cit.*, pp. 116-17.

Deductions for damp quarters are based on the basic act of governmental sanitary inspection. Rooms with low ceilings are those in which the distance between the floor and ceiling is not more than eight feet. Passage rooms are those which other tenants must cross to enter their own apartments, and English basements are those in which the floor is 21 inches below the ground level. If the distance is less than 21 inches, the deduction is only 20 percent.⁴⁴

All deductions and excesses of the first group are tallied; then, on the basis of the total percentage of deductions and increases, the basic rate of rent for a specific tenant in a given dwelling unit is calculated.

The housing tax may not be lower than 5.5 kopeks for one square meter of living space. If the resultant net totals less than 5.5 kopeks after all deductions are calculated for defects, the housing tax remains at 5.5 kopeks per one square meter of living space.

Personal Rate

To certain individuals the law gives the right to additional living space, which usually is in the form of separate rooms. These, however, do not include the higher strata of Soviet society (high members of Party hierarchy and top government officials, senior officers of the armed forces and the secret police, etc.), for whom norms do not exist. The Soviet elite is provided with sumptuously furnished apartments and *dachi* or country villas, both rent free. Secretaries of local Party committees, up to the Central Committee, have special rent rates which are not published. All other Soviet officials and ordinary Party members are subject to the general rules. Among the privileged persons who receive additional

"lebensraum" under the law are included the following groups:⁴⁵

First Group—heroes of the Soviet Union, heroes of labor, governmental pensioners, those recognized in the fields of science, art, technology, scientific workers, writers, composers, artists, sculptors, and inventors. These pay a single rate for the additional space regardless of size.

Second Group—the sick or diseased, who have been approved by the Ministry of Health; many of the Soviet middle class, particularly those with specific skills who do part of their work at home, or take on jobs on the side in order to meet the high cost of living,⁴⁶ pay a single rate for the first additional 108 square feet and for the rest of the additional living space at the rate of three times the basic rate.

Third Group—medical, dental practitioners who carry on private practice at home.⁴⁷ These pay at the rate of three times the basic rate for the additional space.

The local authorities in charge of the distribution of housing are alone responsible for deciding whether or not a certain person is entitled to extra space. However, disputes arising out of the use of extra space are subject to court action.⁴⁸

Military Personnel. Military personnel, including general staff of the Soviet army, regular troops (permanent defense army), and militia, pay house rent for space they occupy at the following established rates:⁴⁹

⁴⁴ *Ibid.*, p. 119.

⁴⁵ An industrial designer may design projects for small plants, a lawyer may practice law at home; musicians and artists may give lessons.

⁴⁶ Some private practice is still allowed, but the income derived from such practice is heavily taxed.

⁴⁷ Gsovski, vol. I., *op. cit.*, pp. 461-62.

⁴⁸ *Ibid.*, p. 120.

⁴⁹ *Ibid.*, p. 117.

Monthly Salary (in rubles)	Rate of Rent for 1 Square Meter Floor Space (in kopeks)
up to 300.....	30
301 to 350.....	35
351 to 400.....	40
401 to 450.....	45
451 to 500.....	50
501 to 550.....	55
551 to 600.....	60
601 to 650.....	65
651 to 700.....	70
701 to 750.....	75
more than 750.....	80

Unprivileged Groups. There is a small group of individuals in the USSR who, as long as they do not employ hired help, are permitted to operate privately. These include handicraftsmen, house industry workers, dressmakers, photographers, etc.⁵⁰ However, with the exception of clergymen who pay special rates (see *infra*), this group pays higher personal rates of rent for one square meter of floor space per month than those in the privileged class, as follows:⁵¹ in cities with a population of up to 40,000 persons, from 33 to 66 kopeks; in cities with a population of more than 40,000 persons, from 44 kopeks to 1 ruble 10 kopeks. No deductions for defects in quarters or lack of services are legally allowable for this group.

The highest personal rates of rent are prescribed for clergymen, as is seen from the following table:⁵²

Income of Tenant	Rent Rates Per Month In Cities With Population of:	
	Up to 40,000	More than 40,000
Up to 3,000 rubles per year.....	77 kopeks	1 ruble 10 kopeks
More than 3,000 rubles per year.....	From 1 ruble 32 kopeks to 2 rubles 20 kopeks	From 1 ruble 98 kopeks to 4 rubles 40 kopeks

For each 200 rubles of annual income above 3,000 rubles, 11 kopeks per square meter of floor space are added to indicated rates, until the maximum rate is reached as indicated in the above table.

Information about tenants' wages is obtained by management from pay-books or directly from places where tenants are employed. Those tenants who have not informed management about their pay scale receive a letter of notice (warning) in due time. If after a second notice the management has not received information of the tenants' wages or income, the rent is automatically set at the maximum rates.

Deductions and Additions of Personal Rate.

In the Russian Republic, or RSFSR, the wage earners receiving less than 145 rubles a month⁵³ merit reduction from the housing tax for dependents. For those earning more than 145 rubles per month, the housing tax is increased to 3.3 kopeks per one square meter of living space, for each full ten rubles of monthly earnings above 145 rubles. However, the highest rate of rent from workers and other wage earners cannot be more than 1 ruble 32 kopeks per one square meter. To calculate the rental rate for those persons with a monthly earning of more than 145 rubles, the following scale of additions to the housing tax is used:⁵⁴

⁵⁰ Maslakov, *et al.*, *loc. cit.* Self-employed individuals, including clergymen, are in the highest income tax bracket, a factor which discourages the existence of this unprivileged class.

⁵¹ *Ibid.*

⁵² *Ibid.*

⁵³ There is no indication that this basic figure has been changed since 1948 in calculating the personal rate of increase in the housing tax. The latest information mentions the lowest base pay for a Soviet worker as being 300 to 400 rubles a month, with the average getting about 600 rubles, working 8 hours a day, 6 days a week. Very skilled workers and fast production workers are reported to get as much as 1,500 to 2,000 rubles per month, while *Stakhanovites* or super-performers on piece work claim up to 3,000 rubles a month: "A Report on Russia," *Fortune*, February 1953, p. 190, 194; "They Opened Up Moscow For Us," *U. S. News and World Report*, April 24, 1953, p. 54; *Trud*, Moscow, April 2, 19, 1953.

⁵⁴ Maslakov, *et al.*, *op. cit.*, p. 119.

Monthly Earnings (in rubles)	Rate of Increases in The Housing Tax for 1 Square Meter (in kopeks)	Monthly Earnings (in rubles)	Rate of Increases in The Housing Tax For 1 Square meter (in kopeks)
145-154	285-294	46.2
155-164	3.3	295-304	49.5
165-174	6.6	305-314	52.8
175-184	9.9	315-324	56.1
185-194	13.2	325-334	54.4
195-204	16.5	335-344	62.7
205-214	19.8	345-354	66.0
215-224	23.1	355-364	69.3
225-234	26.4	365-374	72.6
235-244	29.7	375-384	75.9
255-264	36.3	395-404	82.5
265-274	39.6	405-414	85.8
275-284	42.9	415-424	89.1

With a housing tax of 44 kopeks, and a monthly income of 415-424 rubles, the housing rate reaches the maximum of 1 ruble 32 kopeks; further increases are forbidden. In certain cases, however, additions to the housing tax are made to high-income wage earners. Thus, if the housing tax for one square meter of living space due to various defects in the apartment amounts to only 5.5 kopeks, then the maximum increase to the rent (1 ruble 32 kopeks for 1 square meter) will be paid at the rate of a monthly earning of 530 rubles.

The total earnings from work during regular work hours are used in estimating the house rent of workers and office employees. Not included are overtime pay and pay increment due to night work, side-line employment, employment connected with distant places, traveling, employment on official days of rest, compensation for unused vacations.

Deductions for large families are granted to all workers regardless of their earning power. For large families of workers and employees, deductions to the rent are as follows: for four dependents, 5 percent; five dependents, 10 percent; six or more dependents, 15 percent. The right to establish these deductions is vested in local Soviets.

Payment of Rent, Penalties, and Evictions

Rent for a given month is usually paid not later than the tenth day of that month in the RSFSR, and not later than the fifth of the following month in the USSR. Notices are sent out to all tenants not later than the fifth of each paying month.⁵⁵ Specific penalties are levied for late payment of rent. If tenants fail to pay their rental for living quarters within three months from the day payment was due, they are subject to eviction by administrative order.⁵⁶ Evicted tenants must still pay unclaimed rent, with fines, but special provisions may be arranged for long-term payment.

Additions to Basic Rent and Personal Rate

In addition to the regular rent, the tenants pay for communal facilities, such as heat, light, water and garbage disposal,⁵⁷ and for special services, including repairs, managerial service and snow removal. The rates levied on the tenants for communal facilities and special services are calculated on the actual net cost of appropriate services supplied to the tenants.⁵⁸ These expenses, then, are not apportioned on the basis of the tenants' income, but according to the amount of living space occupied or the size of the family. Only part of the cost for providing heat, which is usually supplied from central heating plants and which amounts to not more than 40 percent of the housing rent, is collected in proportion to the housing rent. The remaining part of expenses for heating are distributed

⁵⁵ Gsovski, vol. II, *op. cit.*, p. 124.

⁵⁶ *Ibid.*, p. 126.

⁵⁷ According to one Soviet source, of the total urban housing in the Russian Republic in 1939, 61 percent received running water; 44 percent, toilet facilities; 18 percent, central heating; 94 percent, electricity; and 12 percent, baths. (B. B. Veselovskii, *Kurs Ekonomiki i Planirovaniia ia Kommunal'nogo Khoziaistva* [Course of Economics and Planning of Municipal Economy], Moscow and Leningrad: Izd-vo Ministerstva Kommunal'nogo Khoziaistva RSFSR, 1945, p. 176, 391). Nearly 400,000 apartments (representing approximately 75 percent of the total) in Moscow have central heating. *Izvestiia*, Moscow, November 28, 1952.

⁵⁸ Gsovski, vol. I, *op. cit.*, p. 403.

among the tenants in proportion to the floor space they occupy.

An estimate of incomes and expenses for communal services and facilities, made by the house managers, is set up separately for each type of communal service and prorated for each tenant of residential buildings and each leaseholder of non-residential buildings. These estimates are made in such a way as to compensate for any overspending for communal servicing during the year, and include a contingency fund.

The distribution of expenses of central heating between the individual users of the dwelling units and non-residential units is made proportionately to the floor space occupied. However, if the height of the non-residential units is greater than that of the residential units, then the cubage of separate units of the building is proportionately used.

Average per capital consumption is the basis for estimating rates of expenses for water used during a given period. In those cases where baths are available in one part of the building but not in another, or where there is an absence of hot water in separate dwelling units, the cost for water is collected by management according to rates established by the local Soviet. Where there are no toilet facilities available in houses, management must take care of the cleaning of outhouses,⁵⁹ the expenses for which are added to the total collected from the tenants.

The cost of lighting is considered only in those houses where there are general electric meters for several dwelling units, the occupants of which pay the electric bills to the management which then pays the electric power station.⁶⁰

⁵⁹ The cleaning of the outhouses is managed by special trusts under the Department of Municipal Economy as set up by the local Soviets.

⁶⁰ Each tenant has the right to install an individual meter, but not enough are available.

The use of electricity is often limited to the occupants according to the norms approved by the local Soviet.

The cost to management for setting up radio antennas is established according to rates of the Ministry of Communication and is collected from the tenants. Costs for other services are calculated and prorated, and added to the total rent.

Conclusion

It should be emphasized that urban housing and housing rent in the Soviet Union can be judged only when viewed in their relation to the historical background, social structure, and political objectives of the country. Approached from this angle, the lesson is clear. Despite the claimed advantages of state ownership of land and the bulk of urban housing, despite nation-wide building and planning organizations, and despite the many accomplishments in the house building programs, housing has remained the most neglected phase of the national economy. The tendency has been to sacrifice housing to investment in heavy industry. The average Soviet city dweller now occupies considerably less space than his counterpart before the Revolution, and the dwelling floor space does not exceed more than four square meters (about 43 square feet) per person.

The basic rent, or rent proper, is computed on the basis of the tenant's income so that one tenant in an apartment building may pay as much as five times the rent for the same amount of living space as another tenant pays. Additional expenses for communal facilities and for special services are usually calculated according to the amount of living space occupied or the size of the tenant's family. Basic rents in themselves are relatively

low, compared with those of other countries. However, if the additional expenses are taken into consideration, the total outlay for housing, or "housing tax," that is borne by the average Soviet worker may be comparable to that borne by the average worker in other countries for similar accommodations.

Aftermath of Shelley Versus Kraemer on Residential Restriction by Race†

By B. T. McGRAW and GEORGE B. NESBITT*

NO more crucial and ubiquitous determinant of interracial contact and adjustment is to be found in American life than the repercussions and consequences which emerge from enforced racial restrictions on residence. Many persons are increasingly concerned with advancement of such sound policy and action in city planning and housing as will insure equal treatment and opportunity for all. Hence, they attach great significance to the United States Supreme Court's decisions in the racial covenant cases of May 3, 1948 and the resultant potentials for freeing nonwhites to compete in the open market for housing without restriction upon race.

*Decisions in Shelley v. Kraemer and Hurd v. Hodge.*¹ The United States Supreme Court on May 3, 1948 had under review two state cases and two District of Columbia cases which it had heard *seriatim*, but it rendered only two full opinions. In the *Shelley v. Kraemer* opinion, the Court ruled that enforcement of racial covenants by state courts constitutes state action prohibited by the Fourteenth Amendment. In the District of Columbia case of *Hurd v. Hodge*,² the Court rested its prohibition of federal court enforcement of racial covenants on

two grounds in holding that: (1) such enforcement is contrary to the public policy of the United States, and (2) such enforcement runs afoul of the revised U. S. Statute, Section 1978, which provides that "all citizens of the United States shall have the same right, in every State and Territory, as is enjoyed by white citizens thereof to inherit, purchase, lease, sell, hold, and convey real and personal property."³ The first application of the Court's new rule regarding racial covenants was made by the Court itself a week later when it reversed decisions in cases from Ohio⁴ and California⁵ that had upheld court enforcement of racial restrictive covenants.

Subsequent Action by the Courts. Let us next see how the state courts have construed these decisions of the Supreme Court. The U. S. Supreme Court did not hold racial covenants to be invalid *per se*, so long as such private agreements were enforced solely by private individuals themselves without governmental action. Moreover, since all these cases before the Court had involved injunctive remedy, its decisions did not directly pass upon the question of whether or not other types of judicial assistance or support to such private agreements could be entertained. That being the case, the issue of whether suits to recover damages for breach of such racial covenants could be entertained has been raised repeatedly in the state courts. In all jurisdictions, except two, such suits for damages have been

† The material on which this article is based was originally prepared for presentation by the senior author at the Twenty-seventh Annual Convention of the National Bar Association at Detroit, Michigan, August 29, 1952, and represents the joint product of extensive collaboration in observing and assessing relevant events and trends since 1948.

* The authors are employed in the Housing and Home Finance Agency in Washington, as Deputy Assistant to the Administrator and as Special Assistant to the Director of the Division of Slum Clearance and Urban Redevelopment, respectively. The views expressed herein are their own and not necessarily those of the Agency.

¹ 334 U. S. 1 (1948).

² 334 U. S. 24 (1948).

³ 8 U. S. Code 42 (1946).

⁴ *Trustees of Monroe Avenue Church of Christ v. Perkins*, 334 U. S. 318 (1948).

⁵ *America v. Superior Court of State of California*; and *Tim Kim v. Superior Court of State of California*, 334 U. S. 813 (1948)

denied by the state courts. Four such cases have gone to the state supreme courts—the first in Missouri which upheld the entertaining of such suits and remanded the case to the lower court for the awarding of damages.⁶ Subsequently, a similar case went to the Supreme Court of Oklahoma with the same result.⁷ But in neither of these two cases does it appear that the plaintiffs have proceeded to have the lower court award the damages. Another such case went to the Supreme Court of Michigan where the entertaining of such suits was denied in a holding that the ruling of *Shelley v. Kraemer* prohibited any type of judicial remedy in support of racial covenants.⁸ The fourth such suit was denied damages by the California courts and their decision was affirmed by the United States Supreme Court in *Barrows et al. v. Jackson* on June 15, 1953.⁹ It seems clear that the state courts, with the two exceptions noted in Missouri and Oklahoma, have uniformly construed the rule of *Shelley v. Kraemer* to preclude any type of judicial assistance in support of racial covenants.¹⁰ Several similar and other types of judicial assistance have been sought and denied by lower courts without appeal being taken.

Stuyvesant Town. The Stuyvesant Town case¹¹ in New York City represents a significant aspect of racial restrictions in housing. Stuyvesant Town, a private corporation wholly owned by the Metropolitan Life Insurance Company, refused

to accept Negro tenants in its publicly-aided redevelopment housing project and admitted the fact. As plaintiffs, Negro applicants contended that any such exclusion or discrimination based on race is forbidden by the federal and New York state constitutions. The Stuyvesant Town Corporation denied this argument, contending that it was a private landlord and that the assistance afforded by the city and state to its housing development was not sufficient to change its character or limit its prerogatives; that the public delegation of "eminent domain" and "tax remission" benefits to this private corporation entailed insufficient governmental action to bring its private housing project under the constitutional restraint of the Fourteenth Amendment.

In 1917 the Supreme Court of the United States, in *Buchanan v. Warley*,¹² held a racial zoning ordinance invalid; and in 1948, in *Shelley v. Kraemer* held racial restrictive covenants judicially unenforceable. In both instances the Court found government action—the first legislative and the second judicial—which was prohibited by the Constitution. In these circumstances then, the natural query is: Would the Court be constrained to find similar action when taken by the executive branch any less prohibited by the Constitution?

This Stuyvesant Town case reached the lower courts prior to the racial covenant decisions of the U. S. Supreme Court in 1948, but reached the New York Court of Appeals afterwards. In a close four-to-three decision, the New York Court of Appeals held that Stuyvesant Town's exclusion of Negroes did not constitute state action prohibited by the Constitution. The majority opinion saw the public tax exemption and eminent domain benefits afforded to this project as being insufficient to transmute their

⁶ *Weiss v. Leoon*, 359 No. 1054, 225 S. W. 2nd 127 (Mo. 1949).

⁷ *Correll v. Earley, et al.*

⁸ *Phillips v. Knapp*, No. 260, 031, Circuit Court of Wayne County, Michigan.

⁹ *Barrows et al. v. Jackson* (345 U. S. 902, No. 517, October Term, 1952).

¹⁰ Harry E. Groves, "Judicial Interpretation of the Holdings of the United States Supreme Court in the Restrictive Covenant Cases," *Illinois Law Review*, November-December 1950, pp. 614-31.

¹¹ *Dorsey, et al. v. Stuyvesant Town Corporation, et al.*, 339 U. S. 981 (1950), reported below 299 N. Y. 512, 87 N. E. 2nd 541 (1949).

¹² 245 U. S. 60 (1917).

conduct into state action contravening the Constitution, while the minority, including the Chief Justice himself, contended they did. Even the majority opinion itself, however, admitted that "the issue [of state action] is decisive, for the policy of respondents could not be followed by a governmental body."

The Supreme Court of the United States refused to review that decision, which fact may result in some misunderstanding. The rules of the Court provide that such petitions for review are granted "only where there are special and important reasons therefor." The Court as a rule does not state its reason for denying review of a case nor need it do so. Such denial does not mean that the Court agrees or disagrees with the lower decision.¹³

The Stuyvesant Town case was not finally settled by decision of the courts. The facts are that a Brown-Isaacs Ordinance was finally passed by the City prohibiting segregation in Stuyvesant Town itself, but shortly before its passage, the Corporation itself decided to relax its policy and admitted a few Negroes.

Action by Federal Housing Agencies. The federal housing agencies gave immediate and continuing study to these decisions of the U. S. Supreme Court prohibiting judicial enforcement of racial covenants in order to determine and make any revisions of policies as required to bring them into line with the Court's rulings. The provisional studies of the Federal Housing Administration (referred to hereinafter as FHA), a constituent of the Housing and Home Finance Agency, indicated that since any racial covenants were legally unenforceable, no immediate legal changes were required in FHA regulations, yet the public policy aspects of the decisions did call for thorough

review of FHA regulations relating to racial covenants on insured properties.

In the meantime, as a result of its regular periodic review of policy and operations for needed revisions, the FHA revised its instructions on "Eligibility of Properties for Mortgage Insurance" and, on February 18, 1949, issued them to Directors of all Field Offices to the following effect:

"No application of mortgage insurance shall be rejected solely on the grounds that the subject property or types of occupancy might affect market attitude towards other properties in the immediate neighborhood

"Therefore, in the processing of further applications, no consideration of the probable effect of the subject property on other properties shall be reflected

"In the future, mortgage insurance shall not be precluded (1) because of a different type of occupancy, regardless of whether or not it is in violation of a restrictive covenant; (2) nor shall such insurance be precluded on the ground that the introduction of a different occupancy type may affect values of other properties in the area."

The more definitive study of the Court's decisions in the racial covenant cases was concluded with recommendations by FHA to the effect that the home loan insurance operations of the federal government should officially take expressed cognizance of these decisions. This led to an announcement by the Solicitor General of the United States, on December 2, 1949, that "the rules and regulations of the Federal Housing Administration and the Home Loan Guaranty program of the Veterans Administration would soon be amended to bring them into line with the policy underlying the official decisions of the Supreme Court of the United States in the Covenant cases." On the same date the Director of the Division of Slum Clearance and Urban Redevelopment (referred to hereinafter as DSCUR) of the Housing and Home Finance Agency announced that

¹³ See opinion by Mr. Justice Frankfurter in *Maryland v. Baltimore Radio Show*, 338 U. S. 912 (1949)

programs under its administration would be conditioned by similar policy requirements.

Ten days later the FHA and Veterans Administration issued the specific amendments to render the federal aids they administer unavailable for assistance in the financing of a property for which any instrument or agreement of record is executed after February 15, 1950, whereby the occupancy or sale thereof is restricted on the basis of race, color or creed. Further, on February 16, 1950, the FHA issued amendments to its *Underwriting Manual* which contained two noteworthy statements as follows:

"1242. Underwriting considerations shall recognize the right to equality of opportunity to receive the benefits of the mortgage insurance system in obtaining adequate housing accommodations irrespective of race, color, creed or national origin. Underwriting considerations and conclusions are never based on discriminatory attitudes or prejudice. Determinations which adversely affect the eligibility for mortgage insurance, the degree of mortgage risk, or the valuation of the property to be insured shall be supported by observable conditions, precedent or experience directly applicable to the subject case.

"1303. Requirements and standards applying to real estate pertain to characteristics of the property and neighborhood in which the real estate is located, and are technical in character. They do not pertain to the user groups, because homogeneity or heterogeneity of neighborhoods as to race, creed, color or nationality is not a consideration in establishing eligibility."

In each of the instances cited, it is to be observed that the federal agencies prohibit only the use of instruments and agreements of record imposing racial restrictions upon others, and they do not attempt to control any owner in determining what tenants he shall have or to whom he shall sell his property.

This policy does not prevent an owner from voluntarily exercising discrimination in the use or occupancy of a subject

property, but it does enable any owner enjoying the benefits of such federal aids to exercise full freedom of choice with respect to the racial occupancy or use of the subject property.

Under the present policy, it is to be noted, the FHA does encourage and assist any eligible, sound housing development whether its occupancy is to be segregated by race or open to all races without restriction. In fact, the FHA has, within the past year or so, issued mortgage insurance commitments for several open occupancy developments located in such cities as New York, Philadelphia, Washington and Chicago. Moreover, priority in the allocation and insuring of defense housing are given to applications from approved builders for construction of defense housing open to eligible workers of all races.

Naturally, since no reference to the Public Housing Administration (referred to hereinafter as PHA), another constituent of the Housing and Home Finance Agency, was made at the time of the announcements just noted concerning the FHA and DSCUR, there were a flood of inquiries seeking interpretation of the PHA policy. Thus, on December 11, 1949, the *Washington Star*, based on an interview with the First Assistant Commissioner of the PHA, carried a news story highlighting the following:

"The way in which a local housing authority distributes its low-income tenants of different races among its various projects is to be left to local determination so long as equitable provision is made for all races.

We are not attempting, by our regulations, to do what Congress did not see fit to do.

This [latter] reference was explained to mean that since Congress voted down amendments barring segregation in public housing, PHA's forthcoming policy will leave the matter of segregation to decision by local authorities. Besides equity in distribution of housing among races, PHA will require that the public housing units provided be of 'sub-

stantially the same quality, services and convenience' for both Negro and white families."

The official policy of the PHA states: "The following general statement of racial policy shall be applicable to all low-rent housing projects developed and operated under the United States Housing Act of 1937, as amended:

1. Programs for the development of low-rent housing, in order to be eligible for PHA assistance, must reflect equitable provision for eligible families of all races determined on the approximate volume and urgency of their respective needs for such housing.
2. While the selection of tenants and the assigning of dwelling units are primarily matters for local determination, urgency of need and the preferences prescribed in the Housing Act of 1949 are the basic statutory standards for the selection of tenants."

The PHA has readily accommodated its policy and procedures to facilitate and assist interracial occupancy where the local public housing authorities voluntarily, or under state or local mandate, decide upon open occupancy policy and also published a bulletin on *Open Occupancy in Public Housing* (January 1953), for guidance of interested local authorities.

As Myrdal¹⁴ has pointed out, PHA is credited with a record of consistent achievement in (1) assuring equity according to need in the distribution of public housing units as between white and nonwhite families, and (2) assuring compliance with its non-discrimination requirement of racial equity in the employment of labor in the construction of public housing.

The PHA policy, however, of permitting local public housing authorities to segregate by race, is under legal attack. This attack claims that the "separate-but-equal" ruling of *Plessy v. Ferguson*¹⁵ is not applicable to residential property, and that the nature and extent of governmental funds, powers and action involved

in the planning, financing and operation of public housing are sufficient to constitute state action contravening the Fourteenth Amendment of the Constitution.

For example, the case of *Lewis et al. v. City of Detroit, Detroit Housing Commission, et al.* filed in June 1950 is still pending in the Federal Court for the Eastern District of Michigan, but meanwhile the Commission has adopted an open occupancy policy. Two similar cases filed in California in 1952 won decisions restraining the local public housing authorities from segregating public housing by race in Sacramento and San Francisco.¹⁶ Another such suit¹⁷ filed in June 1952 is pending in the Federal District Court in St. Louis, Missouri.

A suit¹⁸ filed September 1952 in the United States District Court for the District of Columbia seeking to enjoin PHA and its Commissioner from giving federal financial assistance to the Housing Authority of Savannah, Georgia, for the construction and operation of a public housing project from which qualified Negro applicants would be excluded, was heard and dismissed on April 21, 1953. This decision, which applied the "separate-but-equal" rule of *Plessy v. Ferguson*, is being appealed.

State and Local Legislation. Many states and cities have enacted prohibitions against racial discrimination and segregation in public housing, and a lesser number of such prohibitions cover urban redevelopment housing also. This trend has picked up since the racial covenant decisions in 1948. Since then, for example, Connecticut, New York, and New Jersey have outlawed segregation in public housing, and Wisconsin, Massachusetts, New Jersey, and New York have forbidden it in urban redevelopment housing. Likewise, local legislation

¹⁴ Gunnar Myrdal, *An American Dilemma* (New York: Harper and Brothers, 1944), Vol. I, p. 350.

¹⁵ 163 U. S. 537 (1896).

¹⁶ *Banks v. San Francisco Housing Authority* (October 1, 1952).

¹⁷ *Ted Davis, et al. v. St. Louis Housing Authority.*

¹⁸ *Heyward, et al. v. HHFA, et al.*

prohibiting segregation in public housing has been enacted in Boston, Cleveland, Hartford, Philadelphia, Pontiac, Newark, Buffalo, Providence, St. Paul, and Toledo; and similarly, local legislation prohibiting segregation in urban redevelopment housing has been passed in New York City, Los Angeles, San Francisco, Cincinnati, and Toledo. This new list plus the older one add up to a respectable total body of state and local laws prohibiting enforced racial segregation and discrimination in housing.¹⁹

Action by Local Public Agencies. Local public authorities in numbers of cities such as New York, Pittsburgh, Chicago, Seattle and Los Angeles had adopted a policy of open occupancy in public housing before the 1948 racial covenant decisions. Since then, local housing authorities, under state or local mandate, have decided to change their existing public housing programs from racially segregated to open occupancy in Buffalo, Denver, Minneapolis, Omaha, Phoenix, Portland (Oregon), Youngstown, Las Vegas, and nine smaller localities in California.²⁰ Local housing authorities, under the authorization of the Housing Act of 1949, have planned or already initiated new low-rent public housing programs under open occupancy policy in Pontiac, Vancouver, Van Buren (Maine), Manchester (New Hampshire), Anaconda (Montana), Clovis (New Mexico, and nine smaller California localities. It is a significant trend that, whereas only some 25 percent of the projects in the whole prewar public housing program were interracially occupied, a preliminary review of development plans for some 230 projects in the new low-rent public program authorized

under the Housing Act of 1949 reveals that 97 projects or 42 percent of these 230 new projects plan unrestricted occupancy open to all races.

Action by Private Housing Industry. Some among private housing industry and finance leadership have also begun to move forward a bit since the 1948 decisions on racial covenants. In June 1949, for example, the National Association of Real Estate Boards' news release on Recommendations to Local Boards urged that "they undertake to provide better housing for Negro families" and emphasized that "reluctance of financial institutions to purchase mortgages on Negro property must be gradually overcome." In December 1949 *The Mortgage Banker* announced: "It is the policy of the Mortgage Bankers' Association to make loans available to all people without distinction as to race, color or creed within the limitation of sound lending practices." In the fourth quarter, 1949, FHA's *Portfolio* quoted *The Mortgage Banker* on satisfactory experiences with loans on properties occupied by Negroes. In March 1950, a Memorandum to Members of the National Association of Home Builders from the Executive Vice-President appeared in the *Correlator* and emphasized that "housing for minority groups and low-income families comprise a vast new market for home builders." In January 1951, NAREB released its revised *Code of Ethics* eliminating the reference to "race or nationality" from Article 34 which had formerly stated: "A realtor should not be instrumental in introducing into any neighborhood a character of property or occupancy, members of any race or nationality, or any individuals whose presence will clearly be detrimental to property values in the neighborhood." The April 1953 issue of *House and Home* carried an interesting article on "Non White Housing" delineat-

¹⁹ "Non-Discrimination Clauses in Regard to Public Housing and Urban Redevelopment Undertakings," prepared by the Division of Law and the Racial Relations Service of the Housing and Home Finance Agency, Revised November 1952, pp. 32.

²⁰ *Loc. cit.*

ing deficits and potentials of private enterprise.

Since 1948, several new privately-financed housing projects have been developed, with and without FHA mortgage insurance, which are open to all racial groups without distinction, and the experience so far reported has all been good. A prominent official of New York City's largest savings bank has expressed the feeling that, on the basis of his bank's salutary experience with financing interracial housing developments, such developments may well be the answer to the complicated relocation problem for redevelopment projects.

Alternative Restrictive Devices. Naturally there was a rush in search of alternative restrictive devices after the racial covenant decisions in 1948. Among the devices alleged to have been used or proposed are: (a) protest, threats, intimidation, vandalism, arson, violence; (b) withholding of credit financing and invoking unfavorable or prohibitive credit terms; (c) censure and intimidation of brokers who are willing to sell to nonwhites without restrictions or in forbidden areas; (d) private gentlemen's agreements among brokers and lenders and neighborhood improvement associations to keep nonwhites out where not wanted; (e) trustee devices of taking and holding title to blocks of individually-owned properties to control all sales, transfers, leasing and occupancy; and (f) cash bond from individual owners of properties covenanted against nonwhites whereby any violation of the covenant forfeits the bond. None of these devices, however, has been able to prevent the continuing wider dispersal of nonwhites which has mounted since the racial covenant decisions of 1948. Perhaps the withholding of credit finance has been the most effective of these devices. The dispersal of nonwhites continues, however, as is reflected

in the United Press Survey findings reported in the *Washington Post*, January 17, 1949, and in *The New York Times*, January 22, 1951. According to the latter report, "most municipal officials said that Negro expansion had been accompanied by little violence." However, violences against nonwhites moving into new areas were not unknown (by the end of 1951) in Chicago, Atlanta, Dallas, Richmond, Charlotte, Birmingham, Washington, Warren (Ohio), Miami, New Orleans, Detroit, and Chattanooga. The most notable and extreme, perhaps, was Cicero, Illinois. Instances of violence, naturally, take the headlines; but by and large, as the UP Survey finds, the movements of Negroes into new areas have been without violence.

Action by Public Interest Groups. Racial and religious minorities have been joined by organized veteran, church, labor and women's groups in support of anti-segregation action involving the legislative, judicial and executive branches of the government at all levels, as well as private industry and finance. A notable new example, in addition to old line organizations such as the National Urban League and the National Association for the Advancement of Colored People and others, is the New York State Committee Against Discrimination in Housing established in 1948 and its striking success in influencing enactment of the Wicks-Austin Act prohibiting discrimination or segregation in housing built by the state or assisted by the state through tax exemption or eminent domain. In 1950 this group spearheaded formation of a National Committee Against Discrimination in Housing designed to duplicate the New York effort on the national front. Similar community action at the existing neighborhood levels is being directed toward such ends as improving intergroup understanding and adjustment, establish-

ing and maintaining proper housing standards and neighborhood conservation, preventing violence and hostility against nonwhites, and restraining whites from panic-flights as nonwhites move in.

Research Studies, Analyses and Reports.

More objective research, studies, analyses and appraisal of conditions, factors and results, which are involved in freeing housing, markets and housing supplies of restrictions based on race or color are needed. Wider dissemination and understanding of the results of such studies and analyses are needed. The current trend and interest appear to be headed in the right direction, but need to be extended and broadened and accelerated. Also needed are: more volumes such as *The Negro Ghetto* By Robert C. Weaver, and *Interracial Housing* by Deutch and Collins; more Agency publications such as *Housing of the Nonwhite Population 1940-1950* and *Open Occupancy in Public Housing*; more handbooks such as the National Community Relations Advisory Council's *Equality of Opportunity in Housing*; more "New 'Gresham's Law of Neighborhoods'—Fact or Fiction" by Charles Abrams, in *The Appraisal Journal* for July 1951; more "Values in Transition Areas: Some New Concepts," by Belden Morgan in *The Review of the Society of Residential Appraisers* for March 1952; and more "Effects of Nonwhite Purchases on Market Prices of Residences" by Luigi M. Laurenti in *The Appraisal Journal* for July 1952. Objective studies of relevant facts and experience about housing supplies and housing markets relating to nonwhites and their opportunities to buy or rent decent homes of their choice within their financial means are essential in order to determine practical ways and means of equalizing housing opportunities to all. So are the needs to document and assess the facts on the extent and character and results of the accelerating

dispersals of nonwhites within local housing supplies since 1948, and more accurately to define and assess the relevant facts and factors which serve to facilitate or impede equal opportunity and treatment in housing.

Conclusions

The aftermath of the racial covenant decisions of the U. S. Supreme Court (May 3, 1948) prohibiting court enforcement has resulted, on balance, in the freer mobility of nonwhites throughout the housing supply. Nonwhites still encounter resistances and obstructions of many sorts in acquiring suitable homes, but the removal of the force and effect of judicial sanction to racial covenants in 1948 has enabled the nonwhites increasingly to hurdle the oppositions in their search to satisfy their hunger for decent housing; indeed, they have progressively dispersed themselves into better neighborhoods throughout local housing supplies without the panic flight of whites or other dire consequences coming true as generally predicted. Federal agencies have generally adjusted their policies in a manner not to obstruct, but rather to accommodate and facilitate such movement. More and more readjustments of notions about racial minorities at all levels of community life seem to be going on, with resultant growing adjustment and accommodation to the insistence by non-whites upon being accorded the same rights and privileges and opportunities as are accorded to any other first class citizen.

In spite of these encouraging trends and progress, most of the new housing developments still generally restrict or exclude non-whites, and the market demand among racial minorities for decent housing is still less adequately served by the private housing industry than is the comparable demand among other groups.

Announcement

As this issue of *Land Economics* goes to press a "Southern Regional Congress on City Planning" is meeting in Roanoke, Virginia to study and recommend action on the South's urban development opportunities. Readers of this journal may expect to be informed on its findings and future prospectus.

Sponsors of the region-wide meeting are the Southern Regional Education Board and the Regional Committee on City Planning. Membership of the Committee is made up of the Universities of North Carolina and Oklahoma, the Georgia Institute of Technology and the Board.

Purpose of the Congress is to define the opportunities for city planning instruction, research and service in the South. The delegates, representing universities, government agencies and industries, will make recommendations for action to the participating organizations and institutions.

Chairman of the Congress is Howard K. Menhinick, Regents' Professor of City Planning at the Georgia Institute of Technology. Speakers at general sessions include Mayor Charles Farnsley of Louisville, Kentucky and Dr. John E. Ivey, Jr., Director, Southern Regional Education Board.

Congress delegates serve on small working committees set up to produce recommendations on different topics for approval by the Congress as a whole. Committee chairmen and their topics are: Aelred J. Gray, Chief Community Planner, Government Research Branch, Tennessee Valley Authority: Professional Planning Services for Southern Communities; Philip Hammer, Executive Officer, Committee of the South, National Planning Association: Basic Research Priorities in Southern City Planning; Margaret Carroll, Harland Bartholomew and Associates, Atlanta: Civic Education in City Planning; Albert Lepawsky, Department of Political Science, University of Alabama: A Planning Periodical for the South; Richard L. Steiner, Director, Baltimore Redevelopment Commission: City Planning Problems of the Central City and Suburban Fringe; Philip P. Green, Jr., Assistant Director, Institute of Government, University of North Carolina: Planning Legislation and Administration; George W. Hubley, Jr., Executive Director, Agricultural and Industrial Development Board, Frankfort, Kentucky: Community Planning and Industrial Development; Buford L. Pickens, Director, School of Architecture, Washington University, St. Louis: Student Recruitment and Undergraduate Preparation; William S. Bonner, Acting Director, Social Science Research Division, Institute of Science and Technology, University of Arkansas: Regional Institutes and Short Courses in City Planning; Lawrence L. Durisch, Chief of Government Research, Division of Regional Studies, Tennessee Valley Authority: Case Material in City Planning; Gerald Gimre, Executive Director, Nashville Housing Authority: Citizen Participation in City Planning; John A. Parker, Head: Department of City and Regional Planning, University of North Carolina, Congress Publications.